

FINANCIAL STATEMENTS OF THE AGENCIES AND ENTERPRISES OF THE GOUVERNEMENT DU QUÉBEC

2003-2004

Publication prepared under
the authority of the Minister
of Finance

ISSN 1488-9137
ISBN 2-550-44235-0

Legal deposit – 2nd quarter 2005
Bibliothèque nationale du Québec

I am pleased to present this publication, which includes the financial statements of the agencies and enterprises of the Gouvernement du Québec.

Although these financial statements are usually tabled in the National Assembly, we are grouping them together in this volume for easier consultation and analysis of the financial position and operating results of the various agencies and enterprises.

Michel Audet
Minister of Finance

Québec, June 2005

TABLE OF CONTENTS

AGENCIES AND ENTERPRISES	MINISTERIAL RESPONSIBILITY	FISCAL YEAR ENDED	PAGE
Agence de l'efficacité énergétique	Ressources naturelles, Faune et Parcs	2004-03-31	9
Agence métropolitaine de transport	Transports	2003-12-31	19
Bibliothèque nationale du Québec	Culture et Communications	2004-03-31	34
Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec	Agriculture, Pêcheries et Alimentation	2004-03-31	52
Bureau des services financiers	Finances	2004-01-31	58
Caisse de dépôt et placement du Québec	Finances	2003-12-31	73
Capital Financière agricole inc.	Agriculture, Pêcheries et Alimentation	2004-03-31	94
Centre de recherche industrielle du Québec	Développement économique et régional et Recherche	2004-03-31	103
Commissaire de l'industrie de la construction	Travail	2004-03-31	115
Commission administrative des régimes de retraite et d'assurances	Administration gouvernementale	2003-12-31	121
Commission de la capitale nationale du Québec	Ressources naturelles, Faune et Parcs	2004-03-31	257
Commission de la construction du Québec	Travail	2003-12-31	271
Commission de reconnaissance des associations d'artistes et des associations de producteurs	Culture et Communications	2004-03-31	315
Commission des lésions professionnelles	Travail	2004-03-31	320
Commission des normes du travail	Travail	2004-03-31	327
Commission des relations du travail	Travail	2004-03-31	335
Commission des services juridiques	Justice	2004-03-31	342
Commission des valeurs mobilières du Québec	Finances	2004-01-31	361
Conseil des arts et des lettres du Québec	Culture et Communications	2004-03-31	369
Corporation d'hébergement du Québec	Santé et Services sociaux	2004-03-31	383
Corporation d'urgences-santé	Santé et Services sociaux	2004-03-31	404
Public Curator (The)	Relations avec les citoyens et Immigration	2004-03-31	(*)
École nationale de police du Québec	Sécurité publique	2003-06-30	418
École nationale des pompiers du Québec	Sécurité publique	2003-06-30	425
Financement-Québec	Finances	2004-03-31	430
Fondation de la faune du Québec	Ressources naturelles, Faune et Parcs	2004-03-31	440
Fonds central pour le bénéfice des personnes incarcérées	Sécurité publique	2003-12-31	450
Fonds d'aide aux recours collectifs	Justice	2004-03-31	457
Fonds d'assurance-garantie administré par la Régie des marchés agricoles et alimentaires du Québec	Agriculture, Pêcheries et Alimentation	2004-03-31	464
Fonds d'assurance-prêts agricoles et forestiers	Agriculture, Pêcheries et Alimentation	2004-03-31	468

TABLE OF CONTENTS

AGENCIES AND ENTERPRISES	MINISTERIAL RESPONSIBILITY	FISCAL YEAR ENDED	PAGE
Fonds de la recherche en santé du Québec	Développement économique et régional et Recherche	2004-03-31	477
Fonds des cautionnements des agents de voyages	Relations avec les citoyens et Immigration	2004-03-31	487
Fonds d'indemnisation du courtage immobilier	Finances	2003-12-31	495
Fonds du régime tripartite d'assurance revenu brut à l'égard des récoltes	Agriculture, Pêcheries et Alimentation	2004-03-31	500
Fonds en fidéicommis	Finances	2004-03-31	505
Fonds national de formation de la main-d'œuvre	Emploi, Solidarité sociale et Famille	2004-03-31	508
Fonds québécois de la recherche sur la nature et les technologies	Développement économique et régional et Recherche	2004-03-31	513
Fonds québécois de la recherche sur la société et la culture	Développement économique et régional et Recherche	2004-03-31	522
Héma-Québec	Santé et Services sociaux	2004-03-31	531
Hydro-Québec	Ressources naturelles, Faune et Parcs	2003-12-31	544
Immobilière SHQ	Affaires municipales Sport et Loisir	2003-12-31	580
Institut de la statistique du Québec	Finances	2004-03-31	591
Institut de tourisme et d'hôtellerie du Québec	Éducation	2003-06-30	598
Institut national de santé publique du Québec	Santé et Services sociaux	2004-03-31	607
Investissement Québec	Développement économique et régional et Recherche	2004-03-31	617
IQ Immigrants Investisseurs inc.	Finances	2004-03-31	645
La Financière agricole du Québec	Agriculture, Pêcheries et Alimentation	2004-03-31	656
Loto-Québec	Finances	2004-03-31	683
Musée d'art contemporain de Montréal	Culture et Communications	2004-03-31	698
Musée de la civilisation	Culture et Communications	2004-03-31	714
Musée national des beaux-arts du Québec	Culture et Communications	2004-03-31	727
Office de la sécurité du revenu des chasseurs et piégeurs cris	Emploi, Solidarité sociale et Famille	2003-06-30	745
Office des professions du Québec	Justice	2004-03-31	751
Office Québec-Amériques pour la jeunesse	Relations internationales	2004-03-31	758
Régie de l'assurance-dépôts du Québec	Finances	2004-01-31	766
Régie de l'assurance maladie du Québec	Santé et Services sociaux	2004-03-31	774
Régie de l'énergie	Ressources naturelles, Faune et Parcs	2004-03-31	784
Régie des installations olympiques	Développement économique et régional et Recherche	2003-10-31	794

TABLE OF CONTENTS

AGENCIES AND ENTERPRISES	MINISTERIAL RESPONSIBILITY	FISCAL YEAR ENDED	PAGE
Régie des rentes du Québec	Emploi, Solidarité sociale et Famille	2004-03-31	807
Régie du cinéma	Culture et Communications	2004-03-31	830
Sidbec	Développement économique et régional et Recherche	2003-12-31	836
Société de développement de la Baie-James	Ressources naturelles, Faune et Parcs	2003-12-31	841
Société de développement de la Zone de commerce international de Montréal à Mirabel	Finances	2004-03-31	854
Société de développement des entreprises culturelles	Culture et Communications	2004-03-31	859
Société de la Place des Arts de Montréal	Culture et Communications	2003-08-31	879
Société de l'assurance automobile du Québec	Transports	2003-12-31	891
Société des alcools du Québec	Finances	2004-03-27	910
Société des établissements de plein air du Québec	Ressources naturelles, Faune et Parcs	2004-03-31	924
Société des Traversiers du Québec	Transports	2004-03-31	932
Société d'habitation du Québec	Affaires municipales, Sport et Loisir	2003-12-31	945
Société du Centre des congrès de Québec	Développement économique et régional et Recherche	2004-03-31	958
Société du Grand Théâtre de Québec	Culture et Communications	2003-08-31	969
Société du Palais des congrès de Montréal	Développement économique et régional et Recherche	2004-03-31	979
Société du parc industriel et portuaire de Bécancour	Développement économique et régional et Recherche	2004-03-31	990
Société du parc industriel et portuaire Québec-Sud	Développement économique et régional et Recherche	2004-03-31	(*)
Société générale de financement du Québec	Finances	2003-12-31	999
Société immobilière du Québec	Conseil du trésor et Administration gouvernementale	2004-03-31	1020
Société Innovatech du Grand Montréal	Développement économique et régional et Recherche	2004-03-31	1034
Société Innovatech du Sud du Québec	Développement économique et régional et Recherche	2004-03-31	1044
Société Innovatech Québec et Chauchière-Appalaches	Développement économique et régional et Recherche	2004-03-31	1055
Société Innovatech Régions ressources	Développement économique et régional et Recherche	2004-03-31	1065
Société nationale de l'amiante	Ressources naturelles, Faune et Parcs	2004-03-31	1074
Société québécoise d'assainissement des eaux	Affaires municipales, Sport et Loisir	2004-03-31	1081

TABLE OF CONTENTS

AGENCIES AND ENTERPRISES	MINISTERIAL RESPONSIBILITY	FISCAL YEAR ENDED	PAGE
Société québécoise de récupération et de recyclage (Recyc-Québec)	Environnement	2004-03-31	1091
Société québécoise d'information juridique (SOQUIJ)	Justice	2004-03-31	1104
Télé-Québec (Société de télédiffusion du Québec)	Culture et Communications	2004-03-31	1111
Tribunal administratif du Québec	Justice	2004-03-31	1123
(*) Not available at time of publication			

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE
(R.S.Q., c. A-7.001)

REVENUE AND EXPENDITURE
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Gouvernement du Québec contribution	\$3 933 500	\$5 797 800
Contribution – Other partners	4 189 872	1 992 914
Other revenue	<u>22 846</u>	<u>1 374</u>
	<u>8 146 218</u>	<u>7 792 088</u>
EXPENDITURE		
Subsidies awarded (Note 4)	3 445 351	4 051 081
Sponsorships and promotion	438 933	468 868
Salaries and fringe benefits	2 383 446	2 254 319
Professional fees and administrative expenses	297 384	268 443
Communications	483 995	302 744
Training	12 784	7 256
Rent	128 610	121 476
Supplies	38 075	56 514
Maintenance and repairs	9 794	12 518
Doubtful loans	386 755	123 283
Financial expenses	1 236	
Depreciation of fixed assets	<u>42 227</u>	<u>40 351</u>
	<u>7 668 590</u>	<u>7 706 853</u>
EXCESS REVENUE OVER EXPENDITURE	<u><u>\$477 628</u></u>	<u><u>\$85 235</u></u>

SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPENING BALANCE		
Previously established balance	\$1 476 050	\$1 390 815
Adjustment		
Change in accounting policy (Note 3)	<u>(39 002)</u>	<u>(39 002)</u>
Adjusted balance	1 437 048	1 351 813
Excess revenue over expenditure	<u>477 628</u>	<u>85 235</u>
CLOSING BALANCE	<u><u>\$1 914 676</u></u>	<u><u>\$1 437 048</u></u>

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE**BALANCE SHEET**
as at March 31, 2004

	<u>2004</u>	<u>2003</u> (Note 3)
ASSETS		
Current assets		
Consolidated Revenue Fund receivable	\$1 079 465	\$2 229 155
Accounts receivable (Note 5)	2 767 468	668 867
Loans redeemable in short term (Note 6)	<u>106 486</u>	<u>97 169</u>
	3 953 419	2 995 191
Loans (Note 6)	300 151	389 905
Fixed assets (Note 7)	<u>100 969</u>	<u>95 234</u>
	<u><u>\$4 354 539</u></u>	<u><u>\$3 480 330</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals (Note 8)	\$1 876 970	\$1 589 775
Revenue received in advance	83 119	54 261
Instalments on the long-term debt (Note 9)	<u>3 976</u>	<u>1 644 036</u>
	1 964 065	1 644 036
Long-term debt (Note 9)	11 653	
Provision for sick leave (Note 10)	<u>397 168</u>	<u>332 269</u>
	<u>2 372 886</u>	<u>1 976 305</u>
EQUITY		
Gouvernement du Québec contributed surplus	<u>66 977</u>	<u>66 977</u>
Surplus		
Appropriated (Note 11)	1 807 468	
Unappropriated	<u>107 208</u>	<u>1 437 048</u>
	<u>1 914 676</u>	<u>1 437 048</u>
	<u><u>\$4 354 539</u></u>	<u><u>\$3 480 330</u></u>
COMMITMENTS (Note 12)		

On behalf of the Board of Directors,
André Chalifour
Richard Lamarche

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE
CASH FLOW

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Excess revenue over expenditure	\$477 628	\$85 235
Adjustments for:		
Doubtful loans	386 755	123 283
Depreciation of fixed assets	42 227	40 351
Gain on disposal of fixed assets	<u>(1 530)</u>	<u> </u>
	905 080	248 869
Change in non-cash elements related to operations		
Increase in accounts receivable	(2 098 601)	(368 109)
Increase in accounts payable and accruals	287 195	310 132
Change in revenue received in advance	28 858	(78 919)
Increase in provision for sick leave	<u>64 899</u>	<u>93 575</u>
	(1 717 649)	(43 321)
Cash flows (used for) provided by operating activities	<u>(812 569)</u>	<u>205 548</u>
INVESTMENT ACTIVITIES		
Loans	(309 997)	(245 660)
Repayment of loans	3 679	60 101
Acquisition of fixed assets	(28 625)	(55 631)
Proceeds from disposal of fixed assets	<u>1 530</u>	<u> </u>
Cash flows used for investment activities	<u>(333 413)</u>	<u>(241 190)</u>
FINANCING ACTIVITIES		
Repayment of the long-term debt	<u>(3 708)</u>	<u> </u>
INCREASE – ACCOUNTS RECEIVABLE FROM THE CONSOLIDATED REVENUE FUND	(1 149 690)	(35 642)
ACCOUNTS RECEIVABLE FROM THE CONSOLIDATED REVENUE FUND, BEGINNING OF YEAR	<u>2 229 155</u>	<u>2 264 797</u>
ACCOUNTS RECEIVABLE FROM THE CONSOLIDATED REVENUE FUND, END OF YEAR	<u>\$1 079 465</u>	<u>\$2 229 155</u>

During the fiscal year, fixed assets were acquired for a total cost of \$47 962, including fixed assets in the amount of \$19 337 acquired under a capital lease.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Agence de l'efficacité énergétique was established by the Act respecting the Agence de l'efficacité énergétique (R.S.Q., c. A-7.001) to see to the promotion of energy efficiency, in the context of sustainable development, for all types of energy, in all sectors of activity and for the benefit of all regions of Québec.

Under section 985 of the Québec Taxation Act (R.S.Q., c. 1-3) and section 149 (1) d) of the Canadian Income Tax Act (RSC, 1985, 5th Suppl.), the Agence does not pay income tax.

2. ACCOUNTING POLICIES

The Agence's financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Contribution – Other partners

Contributions received or receivable from partners and assigned to specific projects are carried over and transferred to revenue as the expenses they finance are incurred.

Subsidies and loans

Subsidies are posted to expenses when they are authorized and when the recipient has met the eligibility criteria, where applicable. However, recoverable subsidies are posted as loans up to the amount that is reasonably certain to be obtained.

Fixed assets

Fixed assets are recorded at cost and depreciated over their service life according to the straight-line method at the following rates:

Automotive equipment	20%
Furniture and equipment	20%
Data processing equipment	33 1/3%
Specialized equipment	10%

Provision for doubtful loans

When there is deemed to be a risk that loans may not be recovered, the book values are calculated at their estimated realizable value. When the amounts and moment of realization cannot be estimated reasonably and reliably, the estimated realizable values are measured according to the market observable for these loans or in keeping with management's judgement.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Agence lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash flows

It is the Agence's policy to present the amount receivable from the Gouvernement du Québec's Consolidated Revenue Fund as cash and cash equivalents, since the amounts from this Fund enable it to meet its short-term cash commitments.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

3. CHANGE IN ACCOUNTING POLICY

Beginning this fiscal year, the Agence records overtime owing to its employees whereas formerly overtime was recorded when paid. The financial statements for the fiscal year ending March 31, 2003 have been adjusted, thereby increasing (decreasing) the following items:

Surplus	(\$39 002)
Accounts payable and accruals	39 002

4. SUBSIDIES AWARDED

	2004	2003
Government enterprises and agencies	\$61 215	\$84 621
Private-sector enterprises	554 367	575 130
Municipalities and municipal housing bureaus	81 620	234 892
Health and social services institutions	1 316 474	1 294 784
Private-sector non-profit organizations	1 431 675	1 861 654
	<u>\$3 445 351</u>	<u>\$4 051 081</u>

5. ACCOUNTS RECEIVABLE

	2004	2003
Ministère des Ressources naturelles, de la Faune et des Parcs receivable	\$88 096	
Amount receivable from other partners	2 668 752	\$660 212
Other	10 620	8 655
	<u>\$2 767 468</u>	<u>\$668 867</u>

6. LOANS

	2004	2003
Loans, interest-free, repayable from 2004 to 2009	\$346 715	\$362 230
Loans, interest-free, repayable in royalties	11 075	22 150
Loan, interest-free, repayable on conditions stipulated in an agreement	48 847	102 694
Amounts carried forward	<u>\$406 637</u>	<u>\$487 074</u>

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE
NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004
6. LOANS (cont'd)

	2004	2003
Amounts brought forward	<u>\$406 637</u>	<u>\$487 074</u>
Doubtful loans:		
Loan, interest-free, repayable from 2005 to 2008	123 452	25 000
Loans, interest-free, repayable in royalties	365 875	380 480
Loans, interest-free, repayable according to conditions stipulated in agreements	<u>4 138</u>	<u>31 393</u>
	493 465	436 873
Allowance for doubtful loans	<u>(493 465)</u>	<u>(436 873)</u>
	<u>406 637</u>	<u>487 074</u>
Loans redeemable in short term	<u>106 486</u>	<u>97 169</u>
	<u>\$300 151</u>	<u>\$389 905</u>

7. FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Automotive equipment	\$69 200	\$58 842	\$10 358	\$16 574
Furniture and equipment	19 797	19 797		956
Data processing equipment	129 815	90 933	38 882	37 379
Specialized equipment	40 664	4 405	36 259	40 325
	259 476	173 977	85 499	95 234
Item leased under capital lease				
Furniture and equipment	19 337	3 867	15 470	
	\$278 813	\$177 844	\$100 969	\$95 234

8. ACCOUNTS PAYABLE AND ACCRUALS

	2004	2003
Subsidies awarded	\$965 314	\$972 024
Accounts payable	483 624	217 533
Salaries and fringe benefits	160 555	141 486
Vacation time	<u>267 477</u>	<u>258 732</u>
	<u>\$1 876 970</u>	<u>\$1 589 775</u>

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUENOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**9. LONG-TERM DEBT**

	<u>2004</u>	<u>2003</u>
Liability for fixed assets, bearing interest at 7%, repayable in monthly instalments of \$412, including capital and interest, maturing in October 2007	\$17 716	
Interest included in payments	<u>2 087</u>	
	15 629	
Portion maturing in the coming fiscal year	<u>3 976</u>	
	<u>\$11 653</u>	

The minimum amounts payable under this capital lease for the next four fiscal years are as follows:

2005	\$4 944
2006	4 944
2007	4 944
2008	<u>2 884</u>
	<u>\$17 716</u>

10. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Agence participate in the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CSSP) or the Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Agence's contributions charged to the year-end statement amount to \$73 189 (2003: \$65 935). The Agence's liability towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave

	<u>2004</u>	<u>2003</u>
Opening balance	\$332 269	\$238 694
Charge for the year	107 888	132 019
Benefits paid during the year	<u>(42 989)</u>	<u>(38 444)</u>
Closing balance	<u>\$397 168</u>	<u>\$332 269</u>

11. APPROPRIATED SURPLUS

Subsequent to management's decision, the Agence appropriated part of its surplus (\$591 608) to meet its commitments in fiscal 2005. It also slated \$1 215 860 for maintaining sufficient activity and ensuring itself of revenue from partners in keeping with contribution agreements.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

12. COMMITMENTS

The Agence is committed to paying subsidies under the programs it administers. However, these subsidies are conditional upon the appropriations allocated by Parliament. The Agence's commitments as at March 31, 2004 are as follows:

2005	\$591 608
2006	140 000
2007	<u>15 000</u>
	<u>\$746 608</u>

13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Agence is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Agence did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

14. FINANCIAL INSTRUMENTS

The short-term fair value of financial instruments is equivalent to their book value, given that they mature in the near future. The fair value of loans cannot reasonably be assessed due to the absence of a market for this type of loan.

The book value of the long-term debt is quite close to its fair value, given that it was contracted during the fiscal year.

15. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE**MANAGEMENT'S REPORT**

The financial statements of the Agence de l'efficacité énergétique were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Agence recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Agence's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Line Drouin
for Réjean Carrier
Director General

Québec, June 15, 2004

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Agence de l'efficacité énergétique as at March 31, 2004, the statement of revenue and expenditure, the statement of surplus, and the cash flow statement for the year then ended. These financial statements are the responsibility of Agence management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Agence's financial position as at March 31, 2004 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 15, 2004

AGENCE MÉTROPOLITAINE DE TRANSPORT
(R.S.Q., c. A-7.02)
GENERAL FUND

STATEMENT OF OPERATING ACTIVITIES AND SURPLUS
for the year ended December 31
(in thousands of dollars)

	Budget 2003 (unaudited)	2003	2002
REVENUE			
Government remittances:			
for fuel tax	45 698	50 450	46 348
for licence fees	45 645	47 677	45 367
Net revenue from TRAM sales (Note 3)	45 120	47 968	45 403
Revenue from commuter trains (Note 4)	30 937	32 038	28 049
Municipal contributions to the cost of commuter rail systems (Note 4)	27 524	27 176	24 358
Ministère des Transports du Québec contributions to the cost of commuter rail systems	267	267	2 497
Ministère des Transports du Québec subsidies to service the public transit operating authorities debt (Note 13):			
for commuter trains	8 624	8 624	14 221
for metropolitan transit facilities	1 380	1 380	2 087
Government assistance for adapted transportation program	450	400	214
Revenue from metropolitan expresses	1 162	1 072	1 006
Municipal contributions to metropolitan expresses	163	167	221
Contributions to metropolitan transit facilities	2 478	621	1 990
Other	1 250	1 082	812
	<u>210 698</u>	<u>218 922</u>	<u>212 573</u>
EXPENDITURE			
Sharing of revenue derived from commuter trains	3 535	3 642	4 084
Distribution of net revenue from TRAM sales (Note 3)	45 120	47 968	45 403
Metropolitan assistance and related expenditures (Note 5)	55 736	60 403	55 170
Commuter trains (Note 4)	70 067	69 740	66 480
Metropolitan transit facilities	10 694	10 468	9 580
Public transit operating authority debt servicing (Note 13):			
for commuter trains	8 627	8 627	14 371
for metropolitan transit facilities	1 775	1 801	2 563
Operating expenses	4 500	4 747	4 239
Development assistance	2 200	2 081	1 940
Assistance for reduced rate TRAM tickets and related expenditures (Note 6)	3 976	5 006	4 219
Adapted transportation	700	533	295
Metropolitan expresses	2 268	2 205	2 337
Other	1 500	1 395	1 880
	<u>210 698</u>	<u>218 616</u>	<u>212 561</u>
NET RESULT		306	12
SURPLUS, BEGINNING OF YEAR		12	
SURPLUS, END OF YEAR		<u>318</u>	<u>12</u>

See notes to the financial statements.

AGENCE MÉTROPOLITAINE DE TRANSPORT

GENERAL FUND

BALANCE SHEET
as at December 31,
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash on hand and term deposits	17 374	9 544
Government remittances receivable	22 571	21 293
Amount receivable from public transit operating authorities (Note 7)	6 504	4 630
Amount receivable from the Ministère des Transports du Québec	391	3 013
Spare parts for commuter trains	3 239	2 504
Other	<u>3 377</u>	<u>4 729</u>
	<u>53 456</u>	<u>45 713</u>
LIABILITIES AND FUND BALANCE		
Accounts payable and accruals	8 970	8 050
Amount payable to public transit operating authorities (Note 8)	<u>44 168</u>	<u>37 651</u>
	53 138	45 701
FUND BALANCE		
Accumulated surplus	<u>318</u>	<u>12</u>
	<u>53 456</u>	<u>45 713</u>

COMMITMENTS AND CONTINGENCIES (Note 13)

See notes to the financial statements.

On behalf of the Board of Directors,
Joël Gauthier
Paul Saint-Jacques

AGENCE MÉTROPOLITAINE DE TRANSPORT**FIXED ASSETS FUND****OPERATIONS AND PERMANENT FINANCING TO BE OBTAINED**

for the years ended December 31

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
PERMANENT FINANCING		
Ministère des Transports du Québec subsidies (Note 12)	142 256	87 487
Municipal contributions (Note 9)	15 549	15 474
Other subsidies	1 784	2 326
Other	<u>596</u>	<u>694</u>
	<u>160 185</u>	<u>105 981</u>
INVESTMENT IN FIXED ASSETS		
Commuter trains		
Deux-Montagnes	1 483	860
Dorion-Rigaud	3 467	7 185
Blainville	9 132	13 640
Mont-Saint-Hilaire	5 483	34 512
Delson	3 343	6 737
Metropolitan transit facilities		
Reserved traffic lanes	3 964	30 405
Incentive parking	5 171	3 352
Terminus	4 005	3 798
Feasibility studies – Metro extension		7 008
Feasibility studies – Miscellaneous		1 435
Other	3 356	848
Change in construction work in progress		
Metro extension towards Laval	119 680	39 170
Miscellaneous	<u>12 131</u>	<u>(32 040)</u>
	<u>171 215</u>	<u>116 910</u>
DEFICIENCY OF PERMANENT FINANCING OVER INVESTMENTS OF THE YEAR	(11 030)	(10 929)
PERMANENT FINANCING TO BE OBTAINED, BEGINNING OF YEAR	<u>(20 737)</u>	<u>(9 808)</u>
PERMANENT FINANCING TO BE OBTAINED, END OF YEAR	<u>(31 767)</u>	<u>(20 737)</u>

See notes to the financial statements.

AGENCE MÉTROPOLITAINE DE TRANSPORT**FIXED ASSETS FUND**
BALANCE SHEET
 as at December 31
 (in thousands of dollars)

	<u>2003</u>	<u>2002</u> Adjusted (Note 2)
ASSETS		
Cash on hand and term deposits	15 687	13 454
Amount receivable from the Ministère des Transports du Québec	319 380	186 988
Fixed assets (Note 10)	624 319	477 556
Other	<u>198</u>	<u>356</u>
	<u><u>959 584</u></u>	<u><u>678 354</u></u>
LIABILITIES AND FUND BALANCE		
Accounts payable and accruals	55 173	33 610
Notes payable (Note 12)	<u>311 859</u>	<u>187 925</u>
	367 032	221 535
FUND BALANCE		
Permanent financing to be obtained	(31 767)	(20 737)
Net investments in fixed assets	<u>624 319</u>	<u>477 556</u>
	<u><u>959 584</u></u>	<u><u>678 354</u></u>

COMMITMENTS AND CONTINGENCIES (Note 13)

See notes to the financial statements.

On behalf of the Board of Directors,
 Joël Gauthier
 Paul Saint-Jacques

AGENCE MÉTROPOLITAINE DE TRANSPORT

STATEMENT OF NET INVESTMENTS IN FIXED ASSETS
as at December 31
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
OPENING BALANCE	594 700	487 081
Adjustment to opening balance (Note 2)	<u>(117 144)</u>	<u>(99 932)</u>
ADJUSTED BALANCE	477 556	387 149
Plus:		
Acquisition of fixed assets	167 859	107 619
Less:		
Depreciation of fixed assets	<u>21 096</u>	<u>17 212</u>
CLOSING BALANCE	<u>624 319</u>	<u>477 556</u>

AGENCE MÉTROPOLITAINE DE TRANSPORT**NOTES TO FINANCIAL STATEMENTS**

December 31, 2003

(in thousands of dollars)

1. STATUS AND NATURE OF ACTIVITIES

The Agence métropolitaine de transport (AMT) is a legal person established in the public interest, a Québec government agent, created under the Act respecting the Agence métropolitaine de transport (R.S.Q., c. A-7.02, referred to as the Act), which began its activities on January 1, 1996. In keeping with its incorporating legislation, the AMT manages, operates and finances commuter train services, metropolitan services and metropolitan transit facilities. It plans and carries out all metro network extensions. Financially speaking, the AMT supports the transit agencies in the Montréal region and sets the metropolitan rates and terms and conditions for sharing metropolitan receipts between transit agencies. The AMT has authority over public transit systems located within its territory, which represents the combined territories of the Communauté urbaine de Montréal, the city of Saint-Jérôme and the Kahnawake Indian reserve.

2. SIGNIFICANT ACCOUNTING POLICIES**Accounting policies**

The financial statements were prepared in accordance with generally accepted accounting principles and the Act respecting the Agence métropolitaine de transport. For this purpose, the AMT uses two the following funds to record its operations:

i) General Fund

In accordance with the provisions of the Act and the practices of fund accounting, the AMT uses a general fund to account for its current operations related to service delivery and operations, as well as the related assets and liabilities.

ii) Fixed Assets Fund

In accordance with the provisions of the Act and the practices of fund accounting, the AMT uses a fixed assets fund to record and control permanent revenue and investments related to fixed assets. The non-refundable amounts granted the AMT for investments on fixed assets are posted to permanent financing in the statement of operations and to permanent financing to be obtained for the Fixed Assets Fund.

The permanent financing shortfall posted in the Fixed Assets Fund represents an unsubsidized cumulative balance of investments in fixed assets that will have to be covered from the permanent financing sources of future fiscal years.

Accounting estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts presented in the financial statements. The actual results could differ from these estimates.

Change in accounting policy

During fiscal 2003, the AMT retroactively changed the presentation of its fixed assets. Previously presented in the statement of fixed assets without being amortized, the fixed assets are henceforth presented to the Fixed Assets Fund and an annual amortization fee is posted to the statement of net investments in fixed assets.

Accounting method

The AMT's operations are recorded on an accrual basis.

Government subsidies

Government subsidies are recorded as revenue or as permanent financing in the appropriate fund and in the fiscal year for which they were granted.

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Spare parts

Spare parts for commuter trains are valued at the lower of cost, less an allowance for obsolescence, or replacement cost.

Fixed assets

Fixed assets are recorded at cost in the statement of fixed assets. This cost includes materials, labour, other fees directly related to construction activities and financial expenses capitalized during the time the work was being carried out.

Fixed assets are amortized over their service life using the straight-line method over the following periods:

Commuter trains – infrastructures	20 years
Commuter trains – rolling stock	10 and 40 years
Metropolitan transit facilities – reserved traffic lanes	20 years
Metropolitan transit facilities – incentive parking	20 years
Metropolitan transit facilities – terminus	20 years

The amortization is recorded in the statement of net investments of fixed assets.

3. NET REVENUE FROM TRAM SALES

Net revenue from TRAM sales corresponds to metropolitan transit tickets sold by public transit operating authorities (PTOA) giving the bearer access to transportation services provided by more than one PTOA. Under section 42 of the Act, the AMT and the PTOAs share the net receipts from the sale of metropolitan transport documents according to use of their respective transportation systems.

The breakdown of net revenues from TRAM sales, net of the allocation of a portion of the revenues to commuter trains and metropolitan expresses, is as follows:

	Budget 2003 unaudited	2003	2002
Société de transport de Montréal	18 692	20 030	18 676
Réseau de transport de Longueuil	13 084	13 218	13 033
Société de transport de Laval	6 843	7 130	6 900
Intermunicipal transportation councils	4 875	5 418	4 024
Conseil régional de transport	1 069	1 586	1 863
Municipalities	557	586	907
	<u>45 120</u>	<u>47 968</u>	<u>45 403</u>

4. COMMUTER TRAINS

Commuter train receipts

Commuter train receipts come from the sale of train tickets and a \$22 368 000 allocation for TRAM sales in 2003 (\$16 696 000 in 2002).

AGENCE MÉTROPOLITAINE DE TRANSPORT
NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

4. COMMUTER TRAINS (cont'd)
Commuter train receipts (cont'd)

Receipt breakdown by commuter train line is as follows:

	Budget 2003 unaudited	2003	2002
Deux-Montagnes	15 200	15 604	14 866
Dorion-Rigaud	5 937	6 045	5 823
Blainville	4 980	5 737	5 085
Mont-Saint-Hilaire	3 516	3 435	1 610
Delson	1 304	1 217	665
	<u>30 937</u>	<u>32 038</u>	<u>28 049</u>

Municipal contributions to commuter trains

In keeping with the Act, the AMT breaks down a portion of the operating and management costs of the Deux-Montagnes and Dorion-Rigaud commuter train lines between the municipalities served by a commuter train line according to the train-kilometres serving each section. The municipalities whose territory is served by the same section share the amount established for that section on a prorated basis according to their standardized real estate value, under section 261.1 of the Act respecting municipal taxation (R.S.Q., c. F-2.1), established for the reference year.

In keeping with the Act, the AMT breaks down a portion of the operating and management costs of the Blainville, Mont-Saint-Hilaire and Delson commuter train lines between the municipalities served by this commuter train line according to the number of commuter train departures, at each station, for each section.

The breakdown of municipal contributions by commuter train line is as follows:

	Budget 2003 unaudited	2003	2002
Deux-Montagnes	10 824	10 862	10 927
Dorion-Rigaud	8 431	8 426	8 104
Blainville	3 520	3 494	3 372
Mont-Saint-Hilaire	3 683	3 695	1 364
Delson	1 066	699	591
	<u>27 524</u>	<u>27 176</u>	<u>24 358</u>

Operating costs

The breakdown of management and operating costs by commuter train line is as follows:

	Budget 2003 unaudited	2003	2002
Deux-Montagnes	27 060	27 154	27 318
Dorion-Rigaud	20 607	20 557	19 603
Blainville	8 800	8 735	8 445
Mont-Saint-Hilaire	9 970	9 839	8 421
Delson	3 630	3 455	2 693
	<u>70 067</u>	<u>69 740</u>	<u>66 480</u>

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

5. METROPOLITAN TRANSIT ASSISTANCE AND RELATED EXPENDITURES

Based on certain factors, terms and conditions, the AMT granted financial assistance to the PTOAs to offset, in whole or in part, the cost of their contribution to the metro transit system or the metropolitan transit bus system.

The amount of metropolitan transit assistance is calculated as follows:

- \$0.20 per passenger assessed using metro system turnstile readings in 2003, for \$43 759 000 (\$42 536 000 in 2002);
- \$0.50 per passenger using metropolitan transit bus system services at a boarding point in the AMT territory, during morning and evening peak periods, assessed using three readings taken during the year totalling \$12 908 000 in 2003 (\$12 490 000 in 2002);.

Further, additional assistance was incorporated into this amount in 2003, for \$3 574 000 (\$2 632 000 for the metro and \$942 000 for buses).

Metropolitan transit assistance breaks down as follows:

	Budget 2003 unaudited	2003	2002
Metro:			
Société de transport de Montréal	42 850	46 391	42 536
Bus:			
Société de transport de Montréal	6 286	6 752	6 113
Réseau de transport de Longueuil	3 025	3 324	3 005
Société de transport de Laval	1 747	1 967	1 728
Intermunicipal transportation councils	1 182	1 296	1 114
Conseil régional de transport	391	407	322
Municipalities	103	104	208
	12 734	13 850	12 490
Related expenditures	152	162	144
	55 736	60 403	55 170

6. ASSISTANCE FOR REDUCED AND INTERMEDIATE RATE TRAM TICKETS AND RELATED EXPENDITURES

Under subparagraph 9, paragraph 1, section 35 of the Act, since 1999, the AMT has covered the cost of the discount offered for TRAM tickets to compensate, in whole or in part, the PTOAs for the reduced and intermediate rate tickets offered TRAM users. For the year 2003, the AMT set the ceiling for assistance for reduced and intermediate rate TRAM tickets at \$4 846 000 for TRAM zone 1-8. This amount was increased by additional assistance of \$160 000 (\$4 219 000 in 2002 for TRAM 2-8).

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

**6. ASSISTANCE FOR REDUCED AND INTERMEDIATE RATE
TRAM TICKETS AND RELATED EXPENDITURES (cont'd)**

The assistance for reduced and intermediate rate TRAM tickets breaks down as follows:

	Budget 2003 unaudited	2003	2002
Société de transport de Montréal	1 669	2 162	1 743
Réseau de transport de Longueuil	1 083	1 334	1 174
Société de transport de Laval	546	668	584
Intermunicipal transportation councils	512	592	472
Conseil régional de transport	112	183	148
Municipalities	54	67	98
	<u>3 976</u>	<u>5 006</u>	<u>4 219</u>

7. AMOUNT RECEIVABLE FROM PUBLIC TRANSIT OPERATING AUTHORITIES

	2003	2002
Société de transport de Montréal	1 509	1 097
Réseau de transport de Longueuil	2 432	1 394
Société de transport de Laval	527	74
Intermunicipal transportation councils	1 737	1 928
Conseil régional de transport	244	126
Municipalities	55	11
	<u>6 504</u>	<u>4 630</u>

8. AMOUNT PAYABLE TO PUBLIC TRANSIT OPERATING AUTHORITIES

	2003	2002
Société de transport de Montréal	34 394	30 004
Réseau de transport de Longueuil	4 651	4 082
Société de transport de Laval	2 656	1 826
Intermunicipal transportation councils	1 955	1 210
Conseil régional de transport	418	319
Municipalities	94	210
	<u>44 168</u>	<u>37 651</u>

9. MUNICIPAL CONTRIBUTIONS TO THE COST OF COMMUTER RAIL SYSTEMS

To fund a portion of the unsubsidized Fixed Assets Fund expenditures, those municipalities whose territory falls within that of the AMT have to pay an annual amount of \$0.01/\$100 of their standardized real estate value, as defined in section 261.1 of the Act respecting municipal taxation (R.S.Q., c. F-2.1), established for the reference year.

AGENCE MÉTROPOLITAINE DE TRANSPORT
NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

10. FIXED ASSETS

	2003		2002	
	Cost	Accumulated depreciation	Net value	Net value
Commuter trains - Deux-Montagnes				
Land	15 035		15 035	15 035
Infrastructures	80 371	32 039	48 332	50 832
Rolling stock	129 189	27 451	101 738	104 968
Commuter trains - Dorion-Rigaud				
Land	517		517	147
Infrastructures	37 710	21 284	16 426	15 573
Rolling stock	72 350	30 669	41 681	42 669
Commuter trains - Blainville				
Land	1 986		1 986	1 499
Infrastructures	17 618	2 046	15 572	14 328
Rolling stock	30 099	8 680	21 419	17 268
Commuter trains - Mont-Saint-Hilaire				
Land	1 810		1 810	1 210
Infrastructures	28 532	2 050	26 482	23 786
Rolling stock	13 041	2 324	10 717	11 116
Commuter trains - Delson				
Infrastructures	3 640	269	3 371	3 462
Rolling stock	6 440	641	5 799	3 028
Metropolitan transit facilities				
Land	16 420		16 420	12 092
Reserved traffic lanes	43 052	4 197	38 855	36 945
Incentive parking	14 969	2 100	12 869	10 820
Terminus	29 456	4 490	24 966	24 265
Spare parts for commuter trains	1 944		1 944	1 944
Construction work in progress				
Metro extension towards Laval	167 433		167 433	47 753
Other	50 947		50 947	38 816
	<u>762 559</u>	<u>138 240</u>	<u>624 319</u>	<u>477 556</u>

For the proposed metro extension to Laval, it is planned that the AMT cede all of the related fixed assets to the STM one year after operations begin.

11. SHORT-TERM LOAN

In keeping with Order-in-Council 1033-2003 of September 24, 2003, the Gouvernement du Québec gave the AMT authorization until September 30, 2005 to contract fluctuating or fixed rate loans from Canadian financial institutions or the Ministère des Finances, to a maximum, including financing charges, of \$100 000 000 in legal Canadian tender. The term of these loans shall, under no circumstances, exceed one year.

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

12. NOTES PAYABLE

The AMT contracted loans with the Ministère des Finances as manager of the Financing Fund. Under the Gouvernement du Québec's mass transit assistance program, the MTQ committed to paying the AMT an annual subsidy of an amount corresponding to the reimbursement of these notes, capital and interest. During the fiscal year, the total amount of the MTQ subsidy for the reimbursement of these notes was \$32 285 000, including \$10 541 000 in interest.

Notes payable are detailed in the table below:

Issue date	Amount authorized	Interest rate %	Maturity date	Balance at beginning of fiscal year	Issued during fiscal year	Repayment during fiscal year	Balance at end of fiscal year
29-12-1998	16 850	5.046	01-12-2003	11 021		11 021	
03-12-1999	13 939	6.320	01-06-2009	10 388		1 338	9 050
07-07-2000	4 674	6.340	01-10-2007	3 760		374	3 386
07-07-2000	7 218	6.340	01-10-2007	6 639		206	6 433
07-07-2000	8 531	6.340	01-10-2007	7 847		243	7 604
25-08-2000	9 542	6.270	01-10-2007	8 123		810	7 313
25-08-2000	2 685	6.270	01-10-2007	2 555		80	2 475
25-08-2000	520	6.270	01-10-2007	443		44	399
21-12-2000	9 128	5.948	01-12-2010	7 678		775	6 903
26-09-2001	2 515	5.958	01-12-2010	2 164		218	1 946
26-09-2001	2 517	5.958	01-12-2010	2 166		218	1 948
26-09-2001	1 365	5.958	01-12-2010	1 283		41	1 242
26-09-2001	10 300	5.958	01-12-2010	9 675		312	9 363
26-09-2001	203	5.958	01-12-2010	174		18	156
26-09-2001	3 500	5.958	01-12-2010	3 012		304	2 708
22-11-2001	635	5.866	01-12-2010	587		51	536
22-11-2001	633	5.866	01-12-2010	586		51	535
22-11-2001	5 000	5.866	01-12-2010	4 870		145	4 725
22-11-2001	17 160	5.866	01-12-2010	15 876		1 384	14 492
22-11-2001	3 123	5.866	01-12-2010	2 890		251	2 639
12-06-2002	3 150	5.945	01-10-2012	3 150		109	3 041
12-06-2002	3 150	5.945	01-10-2012	3 150		109	3 041
12-06-2002	5 275	5.945	01-10-2012	5 275		182	5 093
12-06-2002	8 467	5.945	01-10-2012	8 467		807	7 660
12-06-2002	1 434	5.945	01-10-2012	1 434		137	1 297
17-07-2002	4 028	5.864	01-10-2012	4 028		262	3 766
06-09-2002	15 062	5.385	01-10-2012	15 062		1 123	13 939
06-09-2002	17 164	5.385	01-10-2012	17 164		436	16 728
28-11-2002	10 070	5.439	28-11-2012	10 070		782	9 288
05-12-2002	8 308	5.524	05-12-2012	8 308		642	7 666
05-12-2002	7 560	6.039	05-12-2022	7 560		203	7 357
05-12-2002	2 520	5.524	05-12-2022	2 520		67	2 453
09-07-2003	60 332	4.283	09-07-2010		60 332		60 332
09-07-2003	10 055	4.283	09-07-2010		10 055		10 055
15-09-2003	20 000	5.149	01-10-2013		20 000		20 000
20-11-2003	15 000	5.159	01-10-2013		15 000		15 000
20-11-2003	896	5.159	01-10-2013		896		896
20-11-2003	7 504	5.159	01-10-2013		7 504		7 504
01-12-2003	9 390	4.513	01-12-2008		9 390		9 390
10-12-2003	21 500	5.167	01-10-2013		21 500		21 500
10-12-2003	2 000	5.167	01-10-2013		2 000		2 000
				<u>187 925</u>	<u>146 677</u>	<u>22 743</u>	<u>311 859</u>

AGENCE MÉTROPOLITAINE DE TRANSPORT**NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousands of dollars)

12. NOTES PAYABLE (cont'd)

The breakdown of the annual reimbursement of capital and interest for these notes over the next fiscal years is as follows:

2004	35 582
2005	35 509
2006	35 509
2007	54 890
2008	31 925
2009 and thereafter	217 616
	<u>411 031</u>
Minus interest	99 172
	<u><u>311 859</u></u>

13. COMMITMENTS AND CONTINGENCIES**General Fund commitments**

The AMT signed contractual agreements with a number of suppliers, mainly for the operation and management of commuter rail systems and metropolitan transit facilities. Commitments under these agreements for the coming fiscal years are as follows:

2004	51 206
2005	39 509
2006	16 286
2007	15 023
2008	6 884
2009 and thereafter	6 267
	<u>135 175</u>

Fixed Assets Fund commitments

The AMT has contractual agreements with certain suppliers for the various fixed assets projects in progress. The MTQ has made the commitment vis-à-vis the AMT to subsidize a portion of these fixed assets investments. Commitments under the contracts awarded for these projects are as follows:

2004	132 797
2005	76 738
2006	307
	<u>209 842</u>

The fixed assets projects under way include the metro extension to Laval. At December 31, 2003, the project's estimated final cost was being revised. In keeping with the July 2003 Order-in-Council which increased project costs to \$547 720 000, \$167 433 000 was paid out and \$205 000 000 is included in the above-mentioned commitments. This project is fully subsidized by the MTQ.

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

13. COMMITMENTS AND CONTINGENCIES (cont'd)**Debt service for public transit operating authorities for commuter trains and metropolitan transit facilities**

Under sections 37 and 152 of the Act, the STM, the RTL and the STL maintain the debt service for financing the goods whose ownership was or will be transferred to the AMT. The three transit corporations remain responsible for the commitments represented by the securities they issued, which continue to constitute direct, general obligations for them. The AMT reimburses the STM, the RTL and the STL, in capital and interest, based on the maturity dates of their debt service payments. Future payment under these obligations, for which the AMT receives annual subsidies covering a portion of these payments, break down as follows for the coming fiscal years:

2004	8 422
2005	7 965
2006	6 253
2007	2 331
	24 971

Claims

In its normal course of business, the AMT is involved in various claims and lawsuits. Although the outcomes of the different files active on December 31, 2003 cannot be foreseen with any certainty, the AMT estimates that they should not have significant negative their repercussions on its financial position and net results, given the provisions or insurance coverage related to these elements.

Insurance

The AMT shares, according to set policies, liability for damages or any other claim arising out of the operating agreements for its commuter railroad lines. A provision equal to 0.5% of the annual operating budgets for commuter trains up to a cumulative provision of \$5 000 000 is recorded in the AMT's books to cover risks that are not insured in related to the operation of commuter trains. The total of the amount provided for to date is \$1 878 101 (2002: \$1 580 007).

14. COMPARATIVE FIGURES

Certain 2002 figures were reclassified for consistency with the presentation adopted in 2003.

AGENCE MÉTROPOLITAINE DE TRANSPORT**AUDITORS' REPORT**

To the Board of Directors of the
Agence métropolitaine de transport

We have audited the balance sheets of the General Fund and the Fixed Assets Fund of the Agence métropolitaine de transport (AMT) as at December 31, 2003, the statement of operating activities and surplus of the Operating Fund, the statement of operations and permanent financing of the Fixed Assets Fund and the statement of net investments in fixed assets for the year then ended. These financial statements are the responsibility of the Agence's management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In our opinion, these financial statements present fairly, in all material respects, the Agence's financial position as at December 31, 2003 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles disclosed in Note 2.

The budget figures are shown for comparison purposes only and were not audited. Consequently, we have not expressed an opinion on them.

Ernst & Young, s.r.l./S.E.N.C.R.L.
Chartered Accountants

Montréal, Québec
April 2, 2004

BIBLIOTHÈQUE NATIONALE DU QUÉBEC
(R.S.Q., c. B-2.2)

INCOME
for the year ended March 31, 2004

	2004				2003
	General Fund	Fixed Assets Fund	Start-up Fund	Total	Total Notes 4 and 23
REVENUE					
Gouvernement du Québec subsidies					
Operations	\$19 708 100			\$19 708 100	\$16 369 397
Other subsidies	24 953		\$7 500	32 453	17 057
Interest on long-term debt		\$1 179 269		1 179 269	910 064
Amortization of deferred subsidies (Note 16)	74 827	489 501	3 448 527	4 012 855	3 445 283
Donations to the heritage collection	797 059			797 059	905 469
Sale of goods and services	318 137			318 137	440 151
Interest on bank deposits	182 621			182 621	104 751
	<u>21 105 697</u>	<u>1 668 770</u>	<u>3 456 027</u>	<u>26 230 494</u>	<u>22 192 172</u>
EXPENDITURE					
Salaries and fringe benefits	12 226 033		1 903 375	14 129 408	11 946 075
Professional, administrative and other services	2 467 981		1 132 462	3 600 443	2 930 890
Rent	1 296 858		1 300	1 298 158	1 202 585
Transportation and communications	968 533			968 533	783 083
Supplies	721 982		40 956	762 938	983 782
Loss on sale of asset		37 309		37 309	8 081
Financial expenses (Note 17)	5 637	1 222 208	188 462	1 416 307	1 009 913
Depreciation of fixed assets		1 232 843	189 472	1 422 315	1 278 910
	<u>17 687 024</u>	<u>2 492 360</u>	<u>3 456 027</u>	<u>23 635 411</u>	<u>20 143 319</u>
Heritage collection (Note 5)					
Donations	797 059			797 059	905 469
Purchases	448 076			448 076	487 690
	<u>18 932 159</u>	<u>2 492 360</u>	<u>3 456 027</u>	<u>24 880 546</u>	<u>21 536 478</u>
EXCESS REVENUE OVER EXPENDITURE (EXPENDITURE OVER REVENUE)					
	<u>\$2 173 538</u>	<u>\$(823 590)</u>		<u>\$1 349 948</u>	<u>\$655 694</u>

BIBLIOTHÈQUE NATIONALE DU QUÉBEC

CHANGES IN NET ASSETS
for the year ended March 31, 2004

	2004				2003
	General Fund	Fixed Assets Fund	Start-up Fund	Total	Total Notes 4 and 23
OPENING BALANCE OF NET ASSETS					
Previously established balance	\$2 121 662	\$3 098 477		\$5 220 139	\$4 647 444
Adjustments (Note 4)	623 789	(513 451)	\$9 598 863	9 709 201	9 626 202
Adjusted balance	2 745 451	2 585 026	9 598 863	14 929 340	14 273 646
Excess (adjusted in 2003) revenue over expenditure (expenditure over revenue)	2 173 538	(823 590)		1 349 948	655 694
Interfund contributions (Note 9)	(706 274)	706 274			
CLOSING BALANCE OF NET ASSETS	\$4 212 715	\$2 467 710	\$9 598 863	\$16 279 288	\$14 929 340
Net assets invested in fixed assets		\$2 317 710	\$9 598 863	\$11 916 573	\$12 083 889
Net assets used for a television production under an in-house appropriation		150 000		150 000	100 000
Unappropriated net assets	\$4 212 715			4 212 715	2 745 451
CLOSING BALANCE OF NET ASSETS	\$4 212 715	\$2 467 710	\$9 598 863	\$16 279 288	\$14 929 340

BIBLIOTHÈQUE NATIONALE DU QUÉBEC

BALANCE SHEET
as at March 31, 2004

	2004				2003
	General Fund	Fixed Assets Fund	Start-up Fund	Total	Total Notes 4 and 23
ASSETS					
Current assets					
Cash and cash equivalents (Note 6)	\$7 083 805		\$361 452	\$7 445 257	\$5 646 482
Short-term investments (Note 7)	1 250 903			1 250 903	1 207 038
Gouvernement du Québec subsidies receivable (Note 8)	488 038	\$5 063 280		5 551 318	1 664 639
Accounts receivable	461 548		45 148	506 696	199 411
Interfund accounts receivable, interest-free, no terms of repayment	279 846	5 972			
Prepaid assets	208 063		64 536	272 599	153 564
	<u>9 772 203</u>	<u>5 069 252</u>	<u>471 136</u>	<u>15 026 773</u>	<u>8 871 134</u>
Deferred discount and long-term debt issuing charges		383 089		383 089	174 465
Gouvernement du Québec subsidies receivable (Note 8)		44 861 477	83 782 879	128 644 356	53 237 077
Fixed assets (Note 10)		14 368 858	83 221 181	97 590 039	55 982 320
Participation in a television production (Note 11)		150 000		150 000	100 000
Deposit on acquisition of fixed assets (Note 12)		35 000 000		35 000 000	
	<u>\$9 772 203</u>	<u>\$99 832 676</u>	<u>\$167 475 196</u>	<u>\$276 794 257</u>	<u>\$118 364 996</u>

BIBLIOTHÈQUE NATIONALE DU QUÉBEC

BALANCE SHEET (cont'd)
as at March 31, 2004

	2004				2003
	General Fund	Fixed Assets Fund	Start-up Fund	Total	Total Notes 4 and 23
LIABILITIES					
Current liabilities					
Accounts payable and accruals	\$2 714 618	\$174 829	\$11 352 497	\$14 241 944	\$9 722 177
Short-term borrowings (Note 13)		265 100	78 681 788	78 946 888	36 957 874
Interest payable		727 569	166 891	894 460	868 075
Provision for vacation time	1 035 739		115 750	1 151 489	1 019 409
Interfund accounts receivable, interest-free, no terms of repayment			285 818		
Instalments on long-term debt (Note 14)		4 333 293		4 333 293	739 545
	<u>3 750 357</u>	<u>5 500 791</u>	<u>90 602 744</u>	<u>99 568 074</u>	<u>49 307 080</u>
Provision for sick leave (Note 15)	1 713 880		34 425	1 748 305	1 649 884
Deferred Gouvernement du Québec subsidies (Note 16)	95 251	47 349 288	67 239 164	114 683 703	39 567 990
Long-term debt (Note 14)		44 514 887		44 514 887	12 910 702
	<u>5 559 488</u>	<u>97 364 966</u>	<u>157 876 333</u>	<u>260 514 969</u>	<u>103 435 656</u>
NET ASSETS	<u>4 212 715</u>	<u>2 467 710</u>	<u>9 598 863</u>	<u>16 279 288</u>	<u>14 929 340</u>
	<u>\$9 772 203</u>	<u>\$99 832 676</u>	<u>\$167 475 196</u>	<u>\$276 794 257</u>	<u>\$118 364 996</u>

COMMITMENTS (Note 19)

CONTINGENCIES (Note 20)

SUBSEQUENT EVENTS (Note 24)

On behalf of the Board of Directors,
Lise Bissonnette
Jacques Desautels

BIBLIOTHÈQUE NATIONALE DU QUÉBEC

CASH FLOWS

for the year ended March 31, 2004

	2004				2003
	General Fund	Fixed Assets Fund	Start-up Fund	Total	Total Notes 4 and 23
OPERATING ACTIVITIES					
Excess revenue over expenditure (expenditure over revenue)	\$2 173 538	\$(823 590)		\$1 349 948	\$655 694
Adjustments for:					
Loss of sale of assets		37 309		37 309	8 081
Depreciation of fixed assets		1 232 843	\$189 472	1 422 315	1 278 910
Amortization of deferred subsidies	(74 827)	(489 501)	(3 448 527)	(4 012 855)	(3 445 283)
Amortization of deferred discount and long-term debt issuing charges		42 939		42 939	38 770
	<u>2 098 711</u>	<u></u>	<u>(3 259 055)</u>	<u>(1 160 344)</u>	<u>(1 463 828)</u>
Change in non-cash elements					
Accounts receivable	(315 504)		8 219	(307 285)	(56 111)
Subsidies receivable	68 170	(238 904)	5 344	(165 390)	797 699
Prepaid expenses	(59 809)		(59 226)	(119 035)	(64 431)
Accounts payable and accruals	1 005 546		(244 313)	761 233	(71 072)
Interest paid		290 117	(263 732)	26 385	(31 682)
Provision for vacation time	99 821		32 260	132 081	87 507
Provision for sick leave	97 210		1 211	98 421	68 559
	<u>2 994 145</u>	<u>51 213</u>	<u>(3 779 292)</u>	<u>(733 934)</u>	<u>(733 359)</u>
INVESTMENT ACTIVITIES					
(Note 21)					
Change in short-term investments	(43 865)			(43 865)	(1 207 038)
Purchase of fixed assets		(791 065)	(38 517 745)	(39 308 810)	(17 445 297)
Participation in a television production		(50 000)		(50 000)	(50 000)
Deposit on acquisition of fixed assets		<u>(35 000 000)</u>		<u>(35 000 000)</u>	
	<u>(43 865)</u>	<u>(35 841 065)</u>	<u>(38 517 745)</u>	<u>(74 402 675)</u>	<u>(18 702 335)</u>
Amounts carried forward	<u>\$2 950 280</u>	<u>\$(35 789 852)</u>	<u>\$(42 297 037)</u>	<u>\$(75 136 609)</u>	<u>\$(19 435 694)</u>

BIBLIOTHÈQUE NATIONALE DU QUÉBEC

CASH FLOWS (cont'd)
for the year ended March 31, 2004

	2004				2003
	General Fund	Fixed Assets Fund	Start-up Fund	Total	Total Notes 4 and 23
Amounts brought forward	\$2 950 280	\$(35 789 852)	\$(42 297 037)	\$(75 136 609)	\$(19 435 694)
FINANCING ACTIVITIES					
Increase in short-term borrowings		265 100	41 723 914	41 989 014	22 428 882
Increase in long-term debts		35 937 478		35 937 478	
Repayment of long-term debt		(739 545)		(739 545)	(739 545)
Increase in deferred discount and long-term debt issuing charges		(251 563)		(251 563)	
		35 211 470	41 723 914	76 935 384	21 689 337
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2 950 280	(578 382)	(573 123)	1 798 775	2 253 643
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4 654 965		991 517	5 646 482	3 392 839
Interfund contributions	(706 274)	706 274			
Change in interfund receivables	184 834	(127 892)	(56 942)		
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 6)	<u>\$7 083 805</u>	<u></u>	<u>\$361 452</u>	<u>\$7 445 257</u>	<u>\$5 646 482</u>

See Note 21 for further cash flow information.

BIBLIOTHÈQUE NATIONALE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS**
March 31, 2004

1. CONSTITUTION AND PURPOSE

The Bibliothèque nationale du Québec was established by the Act respecting the Bibliothèque nationale du Québec (R.S.Q., c. B-2.2). Its purpose is to offer democratic access to culture and knowledge and, in this regard, to act as a catalyst vis-à-vis Québec's documentary institutions. Its mandate also includes assembling, preserving and disseminating Québec's published-document heritage, any related document of cultural interest and documents relating to Québec published outside Québec.

Under the legislation creating it, the Bibliothèque nationale du Québec is an agent of the State and, as such, does not pay income tax.

2. PURPOSE OF THE FUNDS

The Operating Fund discloses the Bibliothèque nationale du Québec's current operations. The Fixed Assets Fund discloses the assets, liabilities and operations related to fixed assets and the deposit on the acquisition of the documents and material resources of the Bibliothèque centrale de Montréal. The Start-up Fund presents operations preceding and required for opening the lending building up to the public and resulting from the Gouvernement du Québec authorizations mentioned in Note 10.

3. ACCOUNTING POLICIES

The financial statements of the Bibliothèque nationale were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Subsidies recording

The Bibliothèque nationale uses the deferral method to record subsidies. Subsidies are entered on the books when received or receivable if the amount receivable can be reasonably estimated and is reasonably certain to be received. Unappropriated subsidies are posted to the Operating Fund as the fiscal year proceeds. Appropriated subsidies are recorded as proceeds from the appropriate fund during the fiscal year in which the related expenditures were charged.

Subsidies receivable for fixed assets and their maintenance and for specific projects are recorded during the fiscal year in which the Bibliothèque nationale incurred the expenses and obtained the funding entitling it to these subsidies.

Collections

Library documents are intended for lending or regular consultation and belong to fixed assets. Given their specific nature, heritage collection documents, described in Note 5, are not included under the definition of fixed assets and are not recorded in the balance sheet. Heritage documents purchased are charged to operations for the current fiscal year. Heritage documents acquired through donations, whose value is determined by experts and, when required, sanctioned by the Canadian Government's Canadian Cultural Property Export Review Board Commission, are also charged to operations for the current fiscal year. Donations not subject to an expert opinion and heritage documents acquired by legal deposit and donations without receipts are not recorded in the financial statements due to the difficulty in determining their fair value.

Term deposits

Short-term investments are recorded at cost or market value, whichever is less.

Deferred discount and long-term debt issuing charges

The discount and long-term debt issuing charges are deferred and amortized according to the straight-line method over the initial term of the borrowing.

BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**3. ACCOUNTING POLICIES (cont'd)****Fixed assets**

Fixed assets are recorded at cost. They are amortized over the duration of their service life according to the straight-line method as of the date they are used.

The cost of construction in progress includes materials, direct workers, direct costs, property tax and short-term financing costs during the work, minus short-term parking revenues. The cost of other Start-up Fund assets includes the purchase price, installation costs and short-term financing costs linked to their acquisition until they become operational. Amortization of these fixed assets will begin when the lending building is opened to the public or when they are used if this precedes the opening.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Bibliothèque nationale lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

The Bibliothèque's policy is to present as cash and cash equivalents bank balances and short-term investments maturing within three months of their acquisition date.

4. CHANGES IN ACCOUNTING POLICIES

- a) The figures corresponding to March 31, 2003 and for the fiscal year then ended were adjusted to make corrections and reflect changes in accounting policies in reporting fixed assets and their amortization and the related deferred Gouvernement du Québec subsidies.

These adjustments increased (decreased) the following items in the financial statements:

		2003	
	Correction of errors	Change in Accounting Policies	Total
Amortization of deferred subsidies	\$52 690	\$28 856	\$81 546
Supplies	85 619		85 619
Loss of sale of assets	6 528		6 528
Financial expenses	1 558		1 558
Depreciation of fixed assets	(163 825)	68 667	(95 158)
Excess revenue over expenditure	122 810	(39 811)	82 999
Gouvernement du Québec subsidies receivable	(48 041)		(48 041)
Fixed assets	(92 928)	198 107	105 179
Deferred Gouvernement du Québec subsidies	107 760	224 624	332 384
Net assets	(248 729)	(26 517)	(275 246)

- b) The figures corresponding to March 31, 2003 were adjusted in order to record the Gouvernement du Québec subsidy granted and allocated to the cost increase related to future fringe benefits determined at March 31, 2003. Following this adjustment, the balance of net assets at April 1, 2002 and March 31, 2003 and the balance of subsidies receivable at March 31, 2003 were increased to \$385 584.

BIBLIOTHÈQUE NATIONALE DU QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**4. CHANGES IN ACCOUNTING POLICIES (cont'd)**

- c) Finally, the figures corresponding to March 31, 2003 were adjusted to present the Gouvernement du Québec subsidy granted and allocated to the cost of the land for the lending building in net assets invested in fixed assets. Formerly, this subsidy was presented under deferred subsidies. Following this adjustment, the balance of deferred subsidies at March 31, 2003 was decreased to \$9 598 863 and the balance of net assets at April 1, 2002 and March 31, 2003 was increased by the same amount.

5. HERITAGE COLLECTION

The Bibliothèque nationale's heritage collection comprises the following categories of documents: general collections of books, journals and reviews, including all documents published in Québec received since 1968 by legal deposit and documents published in Québec since 1764; foreign documents related to Québec and foreign documents with heritage value, these latter three categories having been acquired through purchases, donations or exchanges; special collections, so designated to reflect their rarity, their material support or format, notably including rare and old books, prints, artists' books, soundtracks, posters, postcards, sheet music and maps; private archives in the fields of literature and the fine arts; electronic publications.

These heritage documents are of cultural and historical value. They are assembled for permanent safekeeping and dissemination. As a result, they are cared for so as to preserve them and special procedures govern their consultation by the public.

6. CASH AND CASH EQUIVALENTS

	2004	2003
Cash on hand	\$1 168 972	\$2 209 169
Short-term investments maturing within three months of their acquisition date	6 276 285	3 437 313
	<u>\$7 445 257</u>	<u>\$5 646 482</u>

7. TERM DEPOSITS

Short-term investments comprise term deposits whose interest rates vary from 2.05% to 2.60%. These investments will mature in the next fiscal year.

8. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

In the Operating Fund, Gouvernement du Québec subsidies receivable presented in the short term correspond to subsidies granted the Bibliothèque nationale but not yet paid. In the Fixed Assets Fund, subsidies receivable presented in the short term correspond to interest accrued on the long-term debt and to capital repayments on the long-term debt to be made the next fiscal year. In the Fixed Assets Fund and Start-up Fund, subsidies receivable presented in the long-term represent total Gouvernement du Québec commitments related to fixed assets and their maintenance as well as specific projects minus capital repayments on the long-term debt already made or to be made in the next fiscal year.

9. INTERFUND CONTRIBUTIONS

Amounts totalling \$706 274 (2003: \$837 078) were transferred from the Operating Fund to the Fixed Assets Fund during the fiscal year in order to finance fixed asset acquisitions.

BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

10. FIXED ASSETS

	Service life	2004				2003	
		Fixed Assets Fund			Start-up Fund	Total	
		Cost	Accumulated depreciation	Net value	Cost or net value *	Net value	Net value
Land		\$994 000		\$994 000	\$9 598 863	\$10 592 863	\$10 592 863
Property improve- ments	20 years	3 460	\$259	3 201		3 201	3 374
Building	40 years	11 705 427	713 529	10 991 898		10 991 898	11 334 381
Building improvements	20 years	100 043	4 202	95 841		95 841	26 312
Construction in progress					61 647 632	61 647 632	25 925 944
Office furniture and equipment	10 years	1 198 916	428 963	769 953	278 706	1 048 659	1 052 541
Data process- ing and tele- communi- cations equipment and software	3 or 5 years	1 875 851	981 977	893 874	1 023 752 *	1 917 626	1 482 328
Software programs developed	5 years	76 574	27 598	48 976	3 818 783	3 867 759	1 301 128
Leasehold improve- ments	Remaining duration of lease	494 784	341 328	153 456		153 456	286 387
Other equip- ment	5 years	230 563	84 468	146 095	4 137 *	150 232	74 358
Storage equipment	10 years	420 392	148 828	271 564		271 564	332 560
Library documents	3 to 10 years				5 921 395	5 921 395	3 038 092
Binding costs	3 to 10 years				927 913	927 913	532 052
		<u>\$17 100 010</u>	<u>\$2 731 152</u>	<u>\$14 368 858</u>	<u>\$83 221 181</u>	<u>\$97 590 039</u>	<u>\$55 982 320</u>

* A piece of equipment acquired for document processing cost \$6 895 and was amortized at \$2 758 and computer hardware costing \$1 068 426 was amortized for \$194 889. Since other Start-up Fund assets have not yet been used, they were not amortized and their net value equals their cost.

BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**10. FIXED ASSETS** (cont'd)

On January 19, 2000, the Gouvernement du Québec authorized the acquisition of the Palais du commerce site and the construction of a building measuring 33 000 square meters. The total estimated cost of this project was \$90 636 310. Under an Order-in-Council of November 6, 2002, this project's total estimated cost was increased to \$97 636 310 excluding short-term financing charges, which were capitalized for a cumulative amount of \$2 413 615 at March 31, 2004 (2003: \$1 173 469). The cumulated costs as at March 31, 2004 totalled \$66 356 727 and break down as follows:

	2004		2003
	Cost	Short-term financing charges	Total costs
Land	\$9 349 715	\$249 148	\$9 598 863
Construction in progress	53 141 588	2 122 890	55 264 478
Office furniture and equipment	266 147	12 559	278 706
Data processing and telecommunication equipment	1 143 940	70 740	1 214 680
	<u>\$63 901 390</u>	<u>\$2 455 337</u>	<u>\$66 356 727</u>
			<u>\$31 801 489</u>

On July 26, 2000, the Gouvernement du Québec authorized the construction of a 440-space parking lot. The total projected cost for the project was \$8 000 000 excluding short-term financing charges. Following the elimination of 40 parking spaces, the Bibliothèque nationale adjusted the expected project cost to \$7 359 500 excluding short-term financing costs, which were capitalized in their entirety at March 31, 2004. The cumulated costs at March 31, 2004 totalled \$6 383 154 and break down as follows:

	2004		2003
	Cost	Short-term financing charges	Total costs
Construction in progress	<u>\$6 125 440</u>	<u>\$257 714</u>	<u>\$6 383 154</u>
			<u>\$4 521 468</u>

On September 12, 2001, the Gouvernement du Québec authorized the acquisition of library documents and the computer and telecommunications developments required for the lending building to open. The maximum amount of borrowings authorized to finance the cost was \$17 200 000 for the documents and \$12 700 000 for the computer and telecommunications developments excluding short-term financing costs, which were capitalized for a cumulative amount of \$223 550 at March 31, 2004 (2003: \$37 457). The cumulated costs as at March 31, 2004 totalled \$9 931 608 and break down as follows:

	2004		2003
	Cost	Short-term financing charges	Total costs
Uncapitalizable training costs	\$141 326	\$3 298	\$144 624
Data processing and telecommunication equipment and software	45 682	1 124	46 806
Software packages developed	3 742 398	76 385	3 818 783
Library documents	5 774 230	147 165	5 921 395
	<u>\$9 703 636</u>	<u>\$227 972</u>	<u>\$9 931 608</u>
			<u>\$4 318 473</u>

BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd) March 31, 2004

10. FIXED ASSETS (cont'd)

On March 27, 2002, the Gouvernement du Québec authorized the processing of documents that the public could consult on-site or borrow. The maximum amount of short-term borrowings to finance the cost was \$14 100 000 excluding short-term financing charges, which were capitalized in their entirety for binding costs only. The cumulated costs at March 31, 2004, totalled \$7 494 542 and break down as follows:

	2004		2003
	Cost	Short-term financing charges	Total costs
Uncapitalizable document processing	\$6 363 377	\$196 357	\$6 559 734
Binding costs	897 322	30 591	927 913
Other equipment	6 895		6 895
	<u>\$7 267 594</u>	<u>\$226 948</u>	<u>\$7 494 542</u>
			<u>\$4 036 228</u>

11. PARTICIPATION IN A TELEVISION PRODUCTION

The Bibliothèque nationale participates with Télé-Québec in a sponsorship project related to a television production on the Bibliothèque nationale. The amount related to this participation totals \$150 000. The cost of this participation will be amortized according to the number of broadcasts planned.

12. DEPOSIT ON THE ACQUISITION OF FIXED ASSETS

On January 29, 2004, the Gouvernement du Québec authorized the acquisition of the Bibliothèque centrale de Montréal collection and related material resources for \$35 000 000 and authorized its financing through a long-term borrowing.

At March 31, 2004, this acquisition had been paid. However, the Bibliothèque nationale will take possession of the documents and material resources only in the fiscal year ending March 31, 2005. In exchange for having the Bibliothèque nationale take charge of the Bibliothèque centrale de Montréal's lending services, the City of Montréal will pay an \$7 000 000 annually to the Bibliothèque nationale as a financial contribution towards its operating expenses.

13. SHORT-TERM BORROWINGS

The Bibliothèque nationale borrows the amounts required to start up its operations in the lending building from the Gouvernement du Québec's Financing Fund. The maximum authorized by the Gouvernement du Québec for short-term borrowings for this purpose is \$149 636 310 excluding short-term financing charges. The Bibliothèque nationale is also authorized to contract short-term borrowings for the maintenance of its assets of up to \$866 300. The Gouvernement du Québec committed to paying the Bibliothèque nationale the amounts needed to supplement payment of its obligations should it not be able to meet them for one of its short-term borrowings. The credit lines bear interest at the average rate of one-month bank acceptances plus 0.3%. At March 31, the credit line interest rate was 2.50% and the credit line broke down as follows:

BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

13. SHORT-TERM BORROWINGS (cont'd)

	2004	2003
Start-up of operations in lending building		
Land, construction of building and acquisition of equipment and furniture	\$57 217 719	\$25 733 095
Construction of parking lot	5 924 649	3 918 103
Acquisition of library documents	5 018 494	2 701 804
Computer and telecommunications development	3 528 362	1 058 000
Library document processing	6 992 564	3 546 872
	<u>78 681 788</u>	<u>36 957 874</u>
Asset maintenance	265 100	
	<u>\$78 946 888</u>	<u>\$36 957 874</u>

14. LONG-TERM DEBT

	2004	2003
Borrowings on a note from the Financing Fund of The Gouvernement du Québec:		
- 6.5% (effective rate of 6.812%), repayable in annual instalments of \$685 916 until October 1, 2006 and a final instalment of \$10 288 740 on October 1, 2007	\$12 346 488	\$13 032 404
- 6.5% (effective rate of 6.812%), repayable in annual instalments of \$26 593 until October 1, 2006 and a final instalment of \$132 967 on October 1, 2007	212 747	239 340
- 6.296% (effective rate of 6.431%), repayable in annual instalments of \$27 036 until June 28, 2009 and a final instalment of \$189 251 on June 28, 2010, guaranteed by a real estate mortgage without dispossession	351 467	378 503
- 5.169% (effective rate of 5.323%), repayable in annual instalments of \$69 075 until October 1, 2013	690 751	
- 4.932% (effective rate of 5.093%), repayable in annual instalments of \$3 524 673 until October 1, 2013	35 246 727	
	<u>48 848 180</u>	<u>13 650 247</u>
Instalments due within one year	4 333 293	739 545
	<u>\$44 514 887</u>	<u>\$12 910 702</u>

The amount of capital payments on short-term borrowings over the next five fiscal years breaks down as follows:

2005	\$4 333 293
2006	4 333 293
2007	4 333 293
2008	10 042 491
2009	3 620 784

The capital and interest on short-term borrowings are guaranteed by the Gouvernement du Québec, which has committed to paying a subsidy for their repayment.

BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

15. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Bibliothèque nationale participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CCSP), Pension Plan for Senior Officials (PPSO) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Bibliothèque nationale's contributions charged to the year-end statement amount to \$438 206 (2003: \$332 856). The liability of the Bibliothèque nationale towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave

	2004			2003
	General Fund	Start-up Fund	Total	Total
Opening balance	\$1 616 670	\$33 214	\$1 649 884	\$1 581 325
Charge for the year	453 468	50 152	503 620	388 423
Benefits paid during the year	(356 258)	(48 941)	(405 199)	(319 864)
Closing balance	<u>\$1 713 880</u>	<u>\$34 425</u>	<u>\$1 748 305</u>	<u>\$1 649 884</u>

16. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2004				2003
	General Fund	Fixed Assets Fund	Start-up Fund	Total	Total
Previously adjusted opening balance	\$101 511	\$12 028 373	\$36 704 585	\$48 834 469	\$31 480 076
Adjustment (Note 4)		387 794	(9 654 273)	(9 266 479)	(9 136 892)
Adjusted opening balance	101 511	12 416 167	27 050 312	39 567 990	22 343 184
Increase (adjusted in 2003) in Gouvernement du Québec commitments	68 567	35 422 622	43 637 379	79 128 568	20 670 089
Amortization (adjusted in 2003) for the fiscal year	(74 827)	(489 501)	(3 448 527)	(4 012 855)	(3 445 283)
Closing balance	<u>\$95 251</u>	<u>\$47 349 288</u>	<u>\$67 239 164</u>	<u>\$114 683 703</u>	<u>\$39 567 990</u>

17. FINANCIAL EXPENSES

	2004				2003
	General Fund	Fixed Assets Fund	Start-up Fund	Total	Total
Interest and bank charges	\$5 637			\$5 637	\$7 039
Interest on long-term debt		\$1 179 269		1 179 269	910 064
Interest on short-term borrowings			\$188 462	188 462	54 040
Amortization of the deferred discount and long-term debt issuing charges		42 939		42 939	38 770
	<u>\$5 637</u>	<u>\$1 222 208</u>	<u>\$188 462</u>	<u>\$1 416 307</u>	<u>\$1 009 913</u>

BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

17. FINANCIAL EXPENSES (cont'd)

Capitalized interest on fixed assets in the fiscal year totalled \$1 599 782 (2003: \$823 340).

18. FINANCIAL INSTRUMENTS**INTEREST RATE RISK**

The Bibliothèque nationale's financial assets and liabilities bear interest at a fixed rate. Consequently, the risk of fluctuating rates to which latter is exposed is minimal.

FAIR VALUE OF FINANCIAL INSTRUMENTS**Gouvernement du Québec subsidy receivable**

Given that the Gouvernement du Québec subsidies receivable for long-term borrowings are subject to the same conditions as the borrowings in question, the fair value of the Gouvernement du Québec subsidy receivable of \$134 195 674 (2003: \$54 901 716) is \$135 574 643 (2003: \$55 484 698), i.e. the sum of the fair value of the long-term debt plus the Government's commitments for specific projects.

Long-term debt

At March 31, 2004, the fair value of long-term debts of \$48 848 180 (2003: \$13 650 247) was \$51 222 809 (2003: \$15 008 223), given the discounting of cash flows to market interest rates for securities with similar conditions and characteristics.

Other assets and liabilities

The fair value of cash and cash equivalents, short-term investments, receivables, payables and accrued liabilities, short-term borrowings and interest payable equals their book value, given the short time lapse before they mature.

19. COMMITMENTS

The Bibliothèque nationale has made commitments under operating leases ending on different dates until July 31, 2006 for offices and equipment. The expenditure for the fiscal year ended March 31, 2004 for these contracts totalled \$1 266 692, of which \$1 182 405 concerns leases signed with the Société immobilière du Québec (SIQ). For premises located on Esplanade and St-Denis, since the SIQ failed to stipulate the amounts to be disbursed when the capital lease contracts ended, the amount of the minimum future payments payable under these contracts could not be determined. For the other contracts, minimum future payments, including \$381 005 to the SIQ, were as follows:

2005	\$406 828
2006	6 962
2007	220

The Bibliothèque nationale also entered into contracts for various services and expenditures related to fixed assets. At year-end, these commitments were as follows:

	<u>2004</u>
For operations	\$1 048 862
For start-up of lending building operations	<u>24 975 746</u>
	<u>\$26 024 608</u>

The Bibliothèque nationale also committed to awarding teaching establishments amounts totalling \$67 000 annually in order to support research and training in library science.

BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

20. CONTINGENCIES

The Bibliothèque nationale du Québec issued an irrevocable bank guarantee letter in favour of the City of Montréal totalling \$335 000. This guarantee covers potential municipal repair work resulting from construction work. It is issued for one year but renewable until the work authorized by the City of Montréal is completed. It becomes null and void the 61st day after receiving an expiration notice from the City of Montréal. It is impossible to estimate the potential costs associated with this guarantee. Consequently, no provision has been entered on the books.

The contractor for lot 3 of the construction decree, Axor Construction Canada Inc., failed to sign its contract in keeping with the tender submitted and the commitments entered into, alleging that calls for tender conditions were breached. It is suing the Bibliothèque nationale for \$3 405 034 plus interest plus the additional compensation provided for in the Québec Civil Code. The Bibliothèque nationale is suing Axor Construction Canada Inc. and London Guarantee Life Insurance Co., solidarily, for \$2 095 000 plus interest plus the additional compensation provided for in the Québec Civil Code and Axor Construction Canada Inc., alone, for \$235 156 plus interest plus the additional compensation provided for in the Québec Civil Code plus extrajudicial costs incurred. It is impossible to reasonably foresee the outcome of these two proceedings. Consequently, no provision has been entered on the books.

21. ADDITIONAL INFORMATION CONCERNING CASH FLOWS

	<u>2004</u>	<u>2003</u>
a) Interest paid	<u>\$889 725</u>	<u>\$940 697</u>
b) Operations not affecting cash flows related to investment activities:		
Fixed asset purchases financed from accounts receivable	<u>\$11 321 405</u>	<u>\$7 562 871</u>

22. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in the financial statements, the Bibliothèque nationale is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Bibliothèque nationale did not conclude any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

The Bibliothèque nationale signed an occupancy and space loan agreement in December 2000. The agreement contemplates the loan of offices and equipment, taxes and heating and lighting costs for the conservation activities of the Archives nationales du Québec, an entity reporting to the Ministère de la Culture et des Communications. No consideration is received under this agreement. The book value of this transaction is estimated at \$308 199 (2003: \$340 925).

23. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

24. SUBSEQUENT EVENTS

In May 2004, the Gouvernement du Québec announced the pending merger of the Bibliothèque nationale du Québec and the Archives nationales du Québec. When the financial statements were being prepared, the final impact of this merger on the Bibliothèque nationale's assets and liabilities could not be determined.

BIBLIOTHÈQUE NATIONALE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Bibliothèque nationale du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Bibliothèque nationale recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Bibliothèque's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Lise Bissonnette
President-Director General

Monique Goyette
Director General, Administration and
In-house Services

Montréal, June 18, 2004

BIBLIOTHÈQUE NATIONALE DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Bibliothèque nationale du Québec as at March 31, 2004, the statements of income, changes in net assets and the cash flow statement for the year then ended. These financial statements are the responsibility of Bibliothèque management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Bibliothèque's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the changes in accounting policies disclosed in Note 4, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 18, 2004

BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC
(R.S.Q., c. B-7.1)

REVENUE AND EXPENDITURE AN SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Contributions	\$170 350	\$183 650
Gouvernement du Québec subsidy		10 578
Amortization of deferred contributions	900	1 269
Other	<u>28 611</u>	<u>28 279</u>
	<u>199 861</u>	<u>223 776</u>
EXPENDITURE		
Salaries and fringe benefits	104 530	91 273
Service agreement – salaries and fringe benefits		41 290
Service agreement – administration	5 500	10 330
Office supplies	15 505	12 912
Telecommunications	2 273	1 839
Travel and entertainment	20 857	15 456
Maintenance and repairs	4 195	1 720
Professional fees		1 670
Insurance	1 043	955
Miscellaneous	4 060	4 180
Bank charges	694	308
Depreciation of fixed assets	<u>3 277</u>	<u>3 274</u>
	<u>161 934</u>	<u>185 207</u>
EXCESS REVENUE OVER EXPENDITURE	37 927	38 569
SURPLUS (DEFICIT), END OF YEAR	<u>29 371</u>	<u>(9 198)</u>
SURPLUS, END OF YEAR	<u><u>\$67 298</u></u>	<u><u>\$29 371</u></u>

BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC

BALANCE SHEET
as at March 31, 2004

	2004	2003
ASSETS		
Current assets		
Cash on hand	\$200 821	\$180 871
Accounts receivable (Note 3)	13 171	10 782
Prepaid expenses	1 085	936
	<u>215 077</u>	<u>192 589</u>
Fixed assets (Note 4)	<u>7 800</u>	<u>7 833</u>
	<u><u>\$222 877</u></u>	<u><u>\$200 422</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$21 191	\$26 738
Deferred revenue (Note 5)	132 134	141 159
	<u>153 325</u>	<u>167 897</u>
Deferred contributions related to fixed assets	<u>2 254</u>	<u>3 154</u>
	155 579	171 051
SURPLUS (DEFICIT)	<u>67 298</u>	<u>29 371</u>
	<u><u>\$222 877</u></u>	<u><u>\$200 422</u></u>

On behalf of the Board of Directors,
Jean-Claude Blanchette, Chairman
Oneil Cloutier, Vice-chairman

BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC**CASH FLOW**

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Excess revenue over expenditure	\$37 927	\$38 569
Adjustments for:		
Depreciation of fixed assets	3 277	3 274
Amortization of deferred contributions	<u>(900)</u>	<u>(1 269)</u>
	 40 304	 40 574
Change in non-cash items related to operations		
Change in accounts receivable	(2 389)	13 497
Increase in prepaid expenses	(149)	(66)
Decrease in accounts payable and accrued liabilities	(5 547)	(667)
Decrease in deferred revenue	<u>(9 025)</u>	<u>(13 935)</u>
	 (17 110)	 (1 171)
Cash flows provided by operating activities	<u>23 194</u>	<u>39 403</u>
INVESTMENT ACTIVITIES		
Cash flows used for investment activities:		
Acquisition of fixed assets	<u>(3 244)</u>	<u>(5 388)</u>
INCREASE IN CASH ON HAND	19 950	34 015
CASH ON HAND, BEGINNING OF YEAR	<u>180 871</u>	<u>146 856</u>
CASH ON HAND, END OF YEAR	<u><u>\$200 821</u></u>	<u><u>\$180 871</u></u>

BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

The Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec is a legal person that is an agent of the State. It was created under the Act respecting the Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec (R.S.Q., c. B-7.1). The Bureau's mission consists in implementing a system for recognizing the professional qualifications of fishermen and fishermen's assistants in tidal waters except for fishing for anadromous and catadromous species. Under the Québec Taxation Act and the Canadian Income Tax Act, the Bureau pays no income tax.

2. ACCOUNTING POLICIES

The financial statements were prepared by Bureau management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Revenue recording

The Bureau applies the deferral method for recording contributions. According to this method, contributions charged to future fiscal years are deferred and recorded as revenue in the fiscal year in which the related expenses are incurred. Unallocated contributions are recorded as revenue when received or receivable, if the amount receivable can reasonably be estimated and it is reasonably certain that it will be cashed in.

Fixed assets

Fixed assets are recorded at the original cost and amortized based on their service life according to the diminishing balance method at the following annual rates:

Office furniture and equipment	20%
Computer equipment	30%

3. ACCOUNTS RECEIVABLE

	2004	2003
Federal and provincial taxes	\$4 330	\$3 721
Other	8 841	7 061
	<u>\$13 171</u>	<u>\$10 782</u>

4. FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Office furniture and equipment	\$1 603	\$1 231	\$372	\$465
Computer equipment	33 336	25 908	7 428	7 368
	<u>\$34 939</u>	<u>\$27 139</u>	<u>\$7 800</u>	<u>\$7 833</u>

BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

5. DEFERRED REVENUE

	<u>2004</u>	<u>2003</u>
Registration fees paid by fishermen and fishermen's assistants ^(a)	<u>\$132 134</u>	<u>\$141 159</u>

^(a) Deferred revenue represents the registration fees paid by fishermen and fishermen's assistants for fiscal 2004-2005. These contributions are designed to cover operating expenses for the coming fiscal year.

6. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Bureau is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Bureau did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

7. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments equals their book value, given that they mature in the near future.

MANAGEMENT'S REPORT

The financial statements of the Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Bureau recognizes that it is responsible for conducting its affairs in accordance with the statutes, regulations and conventions governing it.

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Bureau's financial statements in accordance with generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the general partner to discuss any matter related to the audit.

Jean-Claude Blanchette
President and Chief Executive Officer

Québec, June 2, 2004

BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec as at March 31, 2004, the statement of revenue and expenditure and surplus and the statement of cash flow for the year then ended. These financial statements are the responsibility of Bureau management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

With the exception of the mention in the following paragraph, my audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

The Bureau obtains most of its proceeds in the form of contributions from Québec fishermen and fishermen's assistants for which it is not possible to verify the comprehensiveness satisfactorily. Consequently, my audit is limited to the amounts recorded in the Bureau's accounts and I was unable to determine whether certain adjustments should have been made to contribution income in the short-term assets and the surplus.

In my opinion, with the exception of the effect of the adjustment I might have deemed necessary had I been able to check the comprehensiveness of the contributions mentioned in the previous paragraph, these financial statements present fairly, in all material respects, the Bureau's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 2, 2004

BUREAU DES SERVICES FINANCIERS
(R.S.Q., c. D-9.2)

STATEMENT OF REVENUE AND EXPENDITURE
for the thirteen-month period ended January 31, 2004

	31-01-2004 (13 months)	31-12-2002 (12 months)
REVENUES		
Contributions	\$8 779 502	\$7 115 372
File examination	883 590	862 446
Sales of manuals and forms	682 333	686 333
Examinations	794 882	658 372
Other services	144 909	160 419
Chambers fees	208 787	124 235
Special FIAP contribution		100 451
FISF administrative expenses	22 677	68 031
Analysis of distribution guides	121 818	62 090
Royalties – Centre collégial de formation à distance	12 813	5 600
Interest	155 045	68 391
	<u>11 806 356</u>	<u>9 911 740</u>
EXPENDITURE		
Salaries	5 553 480	5 109 561
Employee benefits	1 028 745	899 917
Directors' fees	26 800	30 400
Committee members' fees	29 640	24 500
Rental expenses	693 742	567 306
Cost of handbooks and forms sold	225 504	268 568
Messenger and postal services	282 618	226 734
Training costs	23 424	24 155
Outside professional services	639 680	167 797
Office supplies and printing	189 855	166 007
Telecommunications	163 842	150 537
Travel	164 850	142 221
Candidate exams	112 286	100 877
Taxes and permits	91 341	84 165
Maintenance and repairs	99 828	79 607
Publication and communications	70 746	61 844
Insurance	76 390	49 822
Translation	34 711	29 675
Bad debts	7 383	27 235
Equipment rentals	23 895	21 699
Professional dues	23 152	20 233
Advertising	4 794	16 088
Share of pan-Canadian organizations		9 908
FISF administrative expenses	(62 975)	(159 578)
Legislative expenses	(112 500)	(3 407)
Bank charges	78 142	66 927
Amortization of capital assets	729 482	872 637
Amortization of start-up costs	676 522	624 482
Loss (gain) on disposal of capital assets	(375)	282
Loss on write-off of pre-production capital costs	416 320	
Loss on write-off of fixed assets	422 887	
	<u>11 714 209</u>	<u>9 680 199</u>
EXCESS OF REVENUE OVER EXPENDITURE	<u>\$92 147</u>	<u>\$231 541</u>

The accompanying notes are an integral part of the financial statements.

BUREAU DES SERVICES FINANCIERSSTATEMENT OF CHANGES IN NET ASSETS
for the thirteen-month period ended January 31, 2004

	Invested in capital assets	Unrestricted	31-01-2004 (13 months)	31-12-2002 (12 months)
Balance at beginning of year	\$1 201 671	\$363 316	\$1 564 987	\$1 333 446
Excess (deficiency) of revenue over expenditures	(1 151 994)	1 244 141	92 147	231 541
Net investments in fixed assets	584 828	(584 828)		
Balance at end of year	<u>\$634 505</u>	<u>\$1 022 629</u>	<u>\$1 657 134</u>	<u>\$1 564 987</u>

CASH FLOW STATEMENT
for the thirteen-month period ended January 31, 2004

	31-01-2004 (13 months)	31-12-2002 (12 months)
OPERATING ACTIVITIES		
Excess of revenue over expenditure	\$92 147	\$231 541
Non-cash items		
Amortization of capital assets	729 482	872 637
Amortization of start-up costs	676 522	624 482
Loss on write-off of pre-production capital costs	416 320	
Loss on write-off of fixed assets	422 887	
Loss (gain) on the disposal of capital assets	(375)	282
	<u>2 336 983</u>	<u>1 728 942</u>
Changes in working capital items (Note 4)	<u>410 901</u>	<u>(821 780)</u>
Net cash generated	<u>2 747 884</u>	<u>907 162</u>
INVESTING ACTIVITIES		
Capital assets	(588 451)	(409 475)
Disposals of capital assets	3 623	172
Net cash used	<u>(584 828)</u>	<u>(409 303)</u>
NET INCREASE IN CASH AND TERM DEPOSITS	2 163 056	497 859
CASH AND TERM DEPOSITS, BEGINNING OF YEAR	<u>3793 535</u>	<u>3 295 676</u>
CASH AND TERM DEPOSITS, END OF YEAR	<u>\$5 956 591</u>	<u>\$3 793 535</u>

The accompanying notes are an integral part of the financial statements.

BUREAU DES SERVICES FINANCIERS**BALANCE SHEET**

January 31, 2004

	<u>31-01-2004</u>	<u>31-12-2002</u>
ASSETS		
Current assets		
Cash	\$115 591	\$5 535
Term deposits, rate varying between 1.65% and 3.30%, maturing on various dates until January 2005	5 841 000	3 788 000
Receivables (Note 5)	696 553	1 238 841
Inventory	21 670	33 411
Prepaid expenses	149 809	196 090
	<u>6 824 623</u>	<u>5 261 877</u>
Capital assets (Note 6)	634 505	1 201 671
Start-up costs (Note 7)		<u>1 092 842</u>
	<u>\$7 459 128</u>	<u>\$7 556 390</u>
LIABILITIES		
Current liabilities		
Payables (Note 8)	\$1 024 843	\$1 056 738
Deferred revenue	4 777 151	4 934 665
	<u>5 801 994</u>	<u>5 991 403</u>
Net assets		
Invested in capital assets	634 505	1 201 671
Unrestricted	1 022 629	363 316
	<u>1 657 134</u>	<u>1 564 987</u>
	<u>\$7 459 128</u>	<u>\$7 556 390</u>

The accompanying notes are an integral part of the financial statements.

Jean St-Gelais
President-Chief Executive Officer
Autorité des marchés financiers

Linda Levasseur
Director General of Administration
and Services to the Industry
Autorité des marchés financiers

BUREAU DES SERVICES FINANCIERS

NOTES TO FINANCIAL STATEMENTS as at January 31, 2004

1. GOVERNING STATUTES AND NATURE OF OPERATIONS

The mission of the Bureau des services financiers, which was created under the Act respecting the distribution of financial products and services adopted on June 19, 1998, is to ensure the protection of the public with respect to the distribution of financial products and services in the fields of activity under its authority, namely: personal insurance, group insurance, damage insurance, claims adjustment, financial planning, group savings plan brokerage, investment contract brokerage and scholarship plans brokerage.

In accordance with the Act, the Bureau is a legal person. It is not a public body, a government body or agency, or a government corporation within the meaning of the Financial Administration Act, the Act respecting the Ministère des Affaires internationales, de l'Immigration et des Communautés culturelles, the Act respecting the Ministère du Conseil exécutif or the Auditor General Act.

When certain provisions of the Act respecting the distribution of financial products and services came into force, the property, rights and obligations of the Conseil des assurances de personnes and the Conseil des assurances de dommages were transferred to the Bureau des services financiers.

Under the Act respecting the Agence nationale d'encadrement du secteur financier (R.S.Q., c. A-7.03), since February 1, 2004, the Agence nationale d'encadrement du secteur financier, also known as the Autorité des marchés financiers (hereinafter referred to as the Autorité), groups together several agencies that supervise the financial industry and protect the public:

- Bureau des services financiers (BSF)
- Fonds d'indemnisation des services financiers (FISF)
- Commission des valeurs mobilières du Québec (CVMQ)
- Inspecteur général des institutions financières, secteur institutions financières (IGIF)
- Régie de l'assurance-dépôt du Québec (RADQ)

In replacing these agencies, the Autorité acquired their rights and took on their obligations. Until the Autorité took over the activities of the agencies involved in the merger, each agency carried out its regular activities involving application of legislation.

2. NON-CONSOLIDATED CONTROLLED ORGANIZATION AND RELATED PARTY TRANSACTIONS

Up until the merger, the Bureau des services financiers exercised control over the Fonds d'indemnisation des services financiers, appointing the members of this Fund's Board of Directors under the Act respecting the distribution of financial products and services. It also determined the Fonds d'indemnisation des services financiers' by-laws and set the rules governing claim administration and eligibility. The mission and responsibility of the Fonds d'indemnisation des services financiers are to administer funds deposited with the Fund and to compensate individuals who have been the victims of fraud, fraudulent tactics or embezzlement for which a firm, independent representative or an independent company may be held liable in connection with its activities. The Fonds d'indemnisation des services financiers is responsible for deciding the eligibility of claims. It also determines its operating expenses.

The financial statements of the Fonds d'indemnisation des services financiers are available on request. The condensed financial statements of the Fonds d'indemnisation des services financiers as at January 31, 2004 and December 31, 2002 and for the years then ended are as follows:

	<u>31-01-2004</u>	<u>31-12-2002</u>
Financial position		
Total assets	<u>\$7 299 923</u>	<u>\$7 531 985</u>
Total liabilities	\$10 431 963	\$4 317 719
Net assets (negative)	<u>(3 132 040)</u>	<u>3 214 266</u>
	<u>\$7 299 923</u>	<u>\$7 531 985</u>

BUREAU DES SERVICES FINANCIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at January 31, 2004

2. NON-CONSOLIDATED CONTROLLED ORGANIZATION AND RELATED PARTY TRANSACTIONS (cont'd)

	31-01-2004 (13 months)	31-12-2002 (12 months)
Results of operations		
Total revenues	\$2 583 793	\$2 794 107
Total expenses	<u>8 930 099</u>	<u>2 397 412</u>
Excess (deficiency) of revenue over expenditure	<u>\$(6 346 306)</u>	<u>\$396 695</u>

The Bureau des services financiers made human resources, capital assets and rental space available to the Fonds d'indemnisation des services financiers. During the year, the Bureau des services financiers charged \$425 324 (\$595 486 in 2002) for the use of these resources, with \$327 489 posted to reduce the salary item in the statement of revenue and expenditures. These transactions were concluded in the normal course of the organizations' operations and were measured at the exchange amount, i.e. the value determined and accepted by the parties. As at January 31, 2004, the Fonds d'indemnisation des services financiers owed \$40 423 (\$74 899 in 2002) for such expenses.

Moreover, the Bureau des services financiers collects dues on behalf of the Fonds d'indemnisation des services financiers. As at January 31, 2004, the balance of the dues collected by the Bureau des services financiers to be remitted to the Fonds d'indemnisation des services financiers was \$21 060 (\$42 939 in 2002).

3. ACCOUNTING POLICIES**Accounting estimates**

The preparation of financial statements in accordance with the accounting principles that are generally accepted in Canada requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to the financial statements. These estimates are based on management's best knowledge of current events and actions that the Bureau may undertake in the future. Actual results may differ from those estimates.

Inventory valuation

The inventory, which consists mainly of training manuals, is valued at the lower of cost or replacement cost, cost being based on the average cost method.

Short-term investments

Short-term investments are evaluated at cost or market value, whichever is less.

Amortization

Capital assets are accounted for at cost and amortized over their estimated useful lives using the straight-line method over the following periods:

Office furniture and equipment	5 years
Computers, software, systems development and training material	3 years
Leasehold improvements	Remaining term of the leases

BUREAU DES SERVICES FINANCIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at January 31, 2004

3. ACCOUNTING POLICIES (cont'd)**Income recognition***Income from contributions*

Income from contributions is recorded using the accrual basis of accounting. The amounts invoiced for a period exceeding the end of the year are recorded as deferred income.

Income other than contributions

Income other than contributions is recorded when the supply is delivered or the service provided.

4. INFORMATION INCLUDED IN THE CASH FLOW STATEMENT

The changes in non-cash working capital items are detailed as follows:

	31-01-2004 (13 months)	31-12-2002 (12 months)
Receivables	\$542 288	\$(1 081 375)
Inventory	11 741	68 108
Prepaid expenses	46 281	32 818
Payables	(31 895)	(618 872)
Deferred revenues	(157 514)	777 541
	<u>\$410 901</u>	<u>\$(821 780)</u>

5. RECEIVABLES

	31-01-2004	31-12-2002
Contributions	\$491 204	\$1 116 869
Fonds d'indemnisation des services financiers	19 363	31 960
Chambre de la sécurité financière		2 163
Other	185 986	87 849
	<u>\$696 553</u>	<u>\$1 238 841</u>

6. FIXED ASSETS

	31-01-2004	
Cost	Accumulated amortization	Unamortized cost
Office furniture and equipment	\$180 328	\$77 390
Data processing equipment and software	1 003 567	121 098
Systems development	1 575 755	436 017
	<u>\$2 759 650</u>	<u>\$634 505</u>

BUREAU DES SERVICES FINANCIERSNOTES TO FINANCIAL STATEMENTS (cont'd)
as at January 31, 2004**6. FIXED ASSETS (cont'd)**

	31-12-2002		
	Cost	Accumulated amortization	Unamortized cost
Office furniture and equipment	\$472 596	\$252 613	\$219 983
Data processing equipment and software	921 554	705 372	216 182
Systems development	1 299 728	861 637	438 091
Training material	363 140	182 984	180 156
Leasehold improvements	275 879	128 620	147 259
	\$3 332 897	\$2 131 226	\$1 201 671

Systems development includes an amount of \$272 545 for capital assets that have not been amortized since they were being developed.

7. START-UP COSTS

	31-01-2004		
	Cost	Accumulated amortization	Unamortized cost
Start-up costs			
	31-12-2002		
	Cost	Accumulated amortization	Unamortized cost
Start-up costs	\$3 139 883	\$2 047 041	\$1 092 842

8 PAYABLES

	31-01-2004	31-12-2002
Accounts payable and accrued liabilities	\$989 212	\$900 968
Chambre de la sécurité financière	9 473	
Chambre de l'assurance de dommages	26 158	155 770
	<u>\$1 024 843</u>	<u>\$1 056 738</u>

9. COMMITMENTS

The Bureau has entered into long-term lease agreements expiring on various dates until 2007 which call for lease payments of \$101 488 for the rental of office space in Québec City and for the rental of office equipment. The minimum lease payments for the next four years are \$75 168 in 2004, \$10 552 in 2005 and 2006, and \$5 216 in 2007.

Moreover, under a group registered retirement savings plan, the Bureau des services financiers has agreed to pay an amount equal to the contribution of employees meeting the conditions of the employer's contribution, up to 6% of the employee's annual salary. The expense for the year relating to these contributions totals \$257 632 (\$213 661 in 2002).

BUREAU DES SERVICES FINANCIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at January 31, 2004

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of cash, term deposits, accounts receivable and accounts payable approximates the carrying amount thereof given the short-term maturity.

AUDITORS' REPORT

To Jean St-Gelais
President-Chief Executive Officer of the Autorité des marchés financiers
(Agence nationale d'encadrement du secteur financier)

We have audited the balance sheet of Bureau des services financiers as at January 31, 2004 and the statements of revenue and expenditure, changes in net assets and cash flows for the thirteen-month period then ended. These financial statements are the responsibility of Bureau management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In our opinion, these financial statements present fairly, in all material respects, the Bureau's financial position as at January 31, 2004 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada.

Raymond Chabot Grant Thornton
Chartered Accountants

Québec, March 25, 2004

BUREAU DES SERVICES FINANCIERS**FONDS D'INDEMNISATION DES SERVICES FINANCIERS****REVENUE AND EXPENDITURE**

for the thirteen-month period ended January 31, 2004

	Fonds d'indemni- sation des services financiers	Fonds d'indemni- sation des assurances de personnes	Fonds d'indemni- sation des assurances de dommages	Fonds d'indemni- sation des planifi- cateurs financiers	31-01-2004 (13 months) Total	31-12-2002 (12 months) Total
REVENUE						
Contributions	\$2 314 133	\$6 123			\$2 320 256	\$2 499 887
Interest	203 623	12 440	\$41 231	\$1 160	258 454	200 320
Subrogation revenue	58	5 025			5 083	93 900
	<u>2 517 814</u>	<u>23 588</u>	<u>41 231</u>	<u>1 160</u>	<u>2 583 793</u>	<u>2 794 107</u>
EXPENDITURE						
Compensation (Note 6)	8 412 011	(196 000)	(12 243)		8 203 768	1 510 940
Directors' fees	32 145				32 145	49 619
Travel expenses	18 886	40			18 926	24 495
Telecommunications	50				50	3 137
Management fees	383 333	6 123			389 456	515 842
Rental expenses	12 183				12 183	10 613
Professional fees	104 347	1 896			106 243	98 607
Bad debts		47 018			47 018	
Rental of rooms and equipment	1 570				1 570	882
Insurance	70 062		1 073		71 135	94 065
Printing and design	11 910				11 910	7 170
Office supplies and courier	2 822	50			2 872	3 017
Professional dues	3 734				3 734	4 521
Administration fees – BSF	22 677				22 677	68 031
Amortization of capital assets	4 541				4 541	4 024
Interest and bank charges	240	63			303	2 449
Loss on write-off of fixed assets	1 568				1 568	
	<u>9 082 079</u>	<u>(140 810)</u>	<u>(11 170)</u>		<u>8 930 099</u>	<u>2 397 412</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$(6 564 265)</u>	<u>\$164 398</u>	<u>\$52 401</u>	<u>\$1 160</u>	<u>\$(6 346 306)</u>	<u>\$396 695</u>

The accompanying notes are an integral part of the financial statements.

BUREAU DES SERVICES FINANCIERS**FONDS D'INDEMNISATION DES SERVICES FINANCIERS****CHANGES IN FUND BALANCES**

for the thirteen-month period ended January 31, 2004

	Invested in capital assets	Fonds d'indemni- sation des services financiers	Fonds d'indemni- sation des assurances de personnes	Fonds d'indemni- sation des assurances de dom- mages	Fonds d'indemni- sation des planifi- cateurs financiers	31-01-2004 (13 months) Total	31-12-2002 (12 months) Total
BALANCE, BEGINNING OF YEAR	\$9 422	\$2 078 933	\$17 868	\$1 075 057	\$32 986	\$3 214 266	\$2 817 571
Excess (deficiency) of revenue over expenditure	(6 109)	(6 558 156)	164 398	52 401	1 160	(6 346 306)	396 695
BALANCE, END OF YEAR	<u>\$3 313</u>	<u>\$(4 479 223)</u>	<u>\$182 266</u>	<u>\$1 127 458</u>	<u>\$34 146</u>	<u>\$(3 132 040)</u>	<u>\$3 214 266</u>

The accompanying notes are an integral part of the financial statements.

BUREAU DES SERVICES FINANCIERS**FONDS D'INDEMNISATION DES SERVICES FINANCIERS****BALANCE SHEET**
as at January 31, 2004

	Fonds d'indemni- sation des services financiers	Fonds d'indemni- sation des assurances de personnes	Fonds d'indemni- sation des assurances de dommages	Fonds d'indemni- sation des planifi- cateurs financiers	31-01-2004 Total	31-12-2002 Total
ASSETS						
Current assets						
Cash		\$297	\$273		\$570	\$42 171
Term deposits, 2.30% to 4.09%, maturing on various dates until December 2004	\$5 624 296	173 764	772 472	\$33 218	6 603 750	5 783 422
Accounts receivable (Note 3)	91 245	16 030	15 064	928	123 267	160 071
Prepaid expenses	2 425				2 425	67 740
	5 717 966	190 091	787 809	34 146	6 730 012	6 053 404
Term deposits, 3.90%, maturing in December 2005	180 000		339 649		519 649	1 373 677
Notes receivable in subrogation, without interest, maturing in 2012		46 949			46 949	95 482
Capital assets (Note 4)	3 313				3 313	9 422
	<u>\$5 901 279</u>	<u>\$237 040</u>	<u>\$1 127 458</u>	<u>\$34 146</u>	<u>\$7 299 923</u>	<u>\$7 531 985</u>
LIABILITIES						
Current liabilities						
Bank overdraft	\$45 143				\$45 143	
Accounts payable (Note 5)	70 046	\$1 830			71 876	\$149 401
Compensation payable (Note 6)	10 262 000	52 944			10 314 944	4 168 318
	<u>10 377 189</u>	<u>54 774</u>			<u>10 431 963</u>	<u>4 317 719</u>
FUND BALANCES						
Invested in capital assets	3 313				3 313	9 422
Unrestricted	(4 479 223)	182 266	\$1 127 458	\$34 146	(3 135 353)	3 204 844
	<u>(4 475 910)</u>	<u>182 266</u>	<u>1 127 458</u>	<u>34 146</u>	<u>(3 132 040)</u>	<u>3 214 266</u>
	<u>\$5 901 279</u>	<u>\$237 040</u>	<u>\$1 127 458</u>	<u>\$34 146</u>	<u>\$7 299 923</u>	<u>\$7 531 985</u>

The accompanying notes are an integral part of the financial statements.

Jean St-Gelais
President-Chief Executive Officer
Autorité des marchés financiersLinda Levasseur
Director General of Administration
and Services to the Industry
Autorité des marchés financiers

BUREAU DES SERVICES FINANCIERS

FONDS D'INDEMNISATION DES SERVICES FINANCIERS

NOTES TO FINANCIAL STATEMENTS

January 31, 2004

1. GOVERNING STATUTES AND NATURE OF OPERATIONS

The Fonds d'indemnisation des services financiers is a fund incorporated under the Act respecting the distribution of financial products and services, assented to on June 20, 1998 by the Québec government. This fund took over corresponding funds created under the Act respecting market intermediaries as at October 1, 1999.

The Fonds d'indemnisation des services financiers has three distinct funds comprised of amounts in the Fonds d'indemnisation des assurances de dommages, Fonds d'indemnisation des assurances de personnes and Fonds d'indemnisation des planificateurs financiers.

The purpose of the Fonds d'indemnisation des services financiers is to administer amounts deposited with the Fund. Its mission is also to compensate individuals who have been the victims of fraud, fraudulent tactics or embezzlement for which a firm, independent representative or an independent company may be held liable in connection with its activities. It is also responsible for taking over claims on file with the former funds and deciding whether claims resulting from acts committed between September 1, 1991 and September 30, 1999 are eligible for payment in accordance with the regulations under the Act respecting market intermediaries.

Under the Act respecting the Agence nationale d'encadrement du secteur financier (R.S.Q., c. A-7.03), since February 1, 2004, the Agence nationale d'encadrement du secteur financier, also known as the Autorité des marchés financiers (hereinafter referred to as the Autorité), groups together several agencies that supervise the financial industry and protect the public:

- Bureau des services financiers (BSF)
- Fonds d'indemnisation des services financiers (FISF)
- Commission des valeurs mobilières du Québec (CVMQ)
- Inspecteur général des institutions financières, secteur institutions financières (IGIF)
- Régie de l'assurance-dépôt du Québec (RADQ)

In replacing these agencies, the Autorité acquired their rights and took on their obligations. Until the Autorité took over the activities of the agencies involved in the merger, each agency carried out its regular activities involving application of legislation.

2. ACCOUNTING POLICIES

Accounting estimates

The preparation of financial statements in accordance with the accounting principles that are generally accepted in Canada requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to the financial statements. These estimates are based on management's best knowledge of current events and actions that the Bureau may undertake in the future. Actual results may differ from those estimates.

Income recognition

Income from contributions is recorded as soon as the Bureau des services financiers collects the amounts.

Amortization

Capital assets are recorded at cost and amortized over their estimated useful life using the straight-line method over the following periods:

Computers and software	3 years
Office furniture and equipment	5 years

BUREAU DES SERVICES FINANCIERS**FONDS D'INDEMNISATION DES SERVICES FINANCIERS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

January 31, 2004

3. ACCOUNTS RECEIVABLE

	Fonds d'indemni- sation des services financiers	Fonds d'indemni- sation des assurances de personnes	Fonds d'indemni- sation des assurances de dommages	Fonds d'indemni- sation des planifi- cateurs financiers	31-01-2004 Total	31-12-2002 Total
Accrued interest	\$90 040	\$4 130	\$15 064	\$928	\$110 162	\$99 423
Note receivable from other funds	1 205				1 205	31 533
Bureau des services financiers						1 515
Other		11 900			11 900	27 600
	<u>\$91 245</u>	<u>\$16 030</u>	<u>\$15 064</u>	<u>\$928</u>	<u>\$123 267</u>	<u>\$160 071</u>

4. CAPITAL ASSETS

	31-01-2004		
	Cost	Accumulated amortization	Net
Computers and software	\$9 464	\$6 940	\$2 524
Office furniture and equipment	1 565	776	789
	<u>\$11 029</u>	<u>\$7 716</u>	<u>\$3 313</u>
	31-12-2002		
	Cost	Accumulated amortization	Net
Computers and software	\$9 464	\$3 523	\$5 941
Office furniture and equipment	5 184	1 703	3 481
	<u>\$14 648</u>	<u>\$5 226</u>	<u>\$9 422</u>

5. ACCOUNTS PAYABLE

	Fonds d'indemni- sation des services financiers	Fonds d'indemni- sation des assurances de personnes	31-01-2004 Total	31-12-2002 Total
Trade accounts and costs incurred	\$50 808	\$500	\$51 308	\$84 393
Bureau des services financiers	19 238	125	19 363	33 475
Notes payable to other funds		1 205	1 205	31 533
	<u>\$70 046</u>	<u>\$1 830</u>	<u>\$71 876</u>	<u>\$149 401</u>

BUREAU DES SERVICES FINANCIERS**FONDS D'INDEMNISATION DES SERVICES FINANCIERS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

January 31, 2004

6. COMPENSATION AND COMPENSATION PAYABLE

Establishing the amount of compensation payable under claims for situations that have been reported and those that have not, determined by the Bureau's actuaries, is based on known facts and an interpretation of the circumstances based on experience with similar situations, historical claim settlement trends, settled claims, the number of unsettled claims and event frequency. The amounts in question are discounted to reflect the value of money over time.

The compensation expense on the statement of revenues and expenses is composed primarily of changes in the compensation allowance for the year compared to the previous year and compensation payments during the year.

The following table summarized changes in compensation payable:

	Fonds d'indemni- sation des services financiers	Fonds d'indemni- sation des assurances de personnes	Fonds d'indemni- sation des assurances de dommages	31-01-2004 Total	31-12-2002 Total
Balance, beginning of year	\$3 588 932	\$567 143	\$12 243	\$4 168 318	\$3 052 854
Allowance for the year	8 412 011	(196 000)	(12 243)	8 203 768	1 510 940
Claims settled during the year	(1 738 943)	(318 199)		(2 057 142)	(395 476)
Balance, end of year	<u>\$10 262 000</u>	<u>\$52 944</u>		<u>\$10 314 944</u>	<u>\$4 168 318</u>

7. CASH FLOW STATEMENT

No cash flow statement has been presented since principal operating, investing and financing activities are readily apparent from the other financial statements and presenting such a statement would provide no additional information.

8. RELATED PARTY TRANSACTIONS

Up until the merger, the Bureau des services financiers exercised control over the Fonds d'indemnisation des services financiers, appointing the members of this Fund's Board of Directors under the Act respecting the distribution of financial products and services. It also determined the Fonds d'indemnisation des services financiers' by-laws and set the rules governing claim administration and eligibility. The Fonds d'indemnisation des services financiers is responsible for administering the funds deposited and deciding the eligibility of claims. It also determines its operating expenses.

The Bureau des services financiers made human resources, capital assets and rental space available to the Fonds d'indemnisation des services financiers. During the year, the Bureau des services financiers charged \$425 324 (\$595 486 in 2002) for the use of these resources. These transactions were concluded in the normal course of the Bureau's operations and were measured at the exchange amount, i.e. the value determined and accepted by the parties. As at January 31, 2004, the Fonds d'indemnisation des services financiers owed \$40 423 (\$74 899 in 2002) for such services.

Moreover, the Bureau des services financiers collected dues on behalf of the Fonds d'indemnisation des services financiers. Contributors to the Fonds d'indemnisation des services financiers are firms, independent partnerships, and independent representatives registered with the Bureau des services financiers. As at January 31, 2004, the balance of dues collected by the Bureau des services financiers to be remitted to the Fonds d'indemnisation des services financiers was \$21 060 (\$42 939 in 2002).

BUREAU DES SERVICES FINANCIERS**FONDS D'INDEMNISATION DES SERVICES FINANCIERS****NOTES TO FINANCIAL STATEMENTS (cont'd)**January 31, 2004

9. CONTINGENCIES

Six lawsuits in the amount of approximately \$591 823 have been filed against the Bureau regarding decisions to refuse compensation claims in the course of its operations. The directors are of the opinion that these lawsuits are unwarranted and, accordingly, no provision has been recorded in this respect.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The cash, term deposits, accounts receivable and accounts payable are financial instruments whose fair value approximates the carrying amount given the short period to maturity and the related terms and conditions.

The fair value of notes receivable in subrogation could not be determined because it is practically impossible to find financial instruments on the market with essentially the same financial characteristics.

AUDITORS' REPORT

To Jean St-Gelais
President-Chief Executive Officer, Autorité des marchés financiers
(Agence nationale d'encadrement du secteur financier)

We have audited the balance sheet of Fonds d'indemnisation des services financiers as at January 31, 2004 and the statements of revenue and expenditure and changes in fund balances for the thirteen-month period then ended. These financial statements are the responsibility of Fonds management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards that are generally accepted in Canada. They require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management, and the financial statements' overall presentation.

In our opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at January 31, 2004 and the results of its operations and cash flows for the year then ended in accordance with the accounting principles generally accepted in Canada.

Raymond Chabot Grant Thornton
Chartered Accountants

Québec, March 25, 2004

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC
(R.S.Q., c. C-2)

COMBINED STATEMENT OF INCOME AND CHANGES IN NET ASSETS
for the year ended December 31, 2003
(in millions of dollars)

	<u>2003</u>	<u>2002</u>
Investment income (Note 5a)	3 662	3 754
Less:		
Operating expenses (Note 6)	<u>205</u>	<u>258</u>
Net investment income	3 457	3 496
Gains (losses) on sale of investments (Note 5c)	<u>2 324</u>	<u>(6 068)</u>
Total realized income	5 781	(2 572)
Unrealized increase (decrease) in the value of investments and liabilities related to investments (Note 5d)	<u>5 743</u>	<u>(5 981)</u>
Total investment operations	11 524	(8 553)
Excess depositors' deposits over withdrawals	<u>192</u>	<u>962</u>
INCREASE (DECREASE) IN COMBINED NET ASSETS	11 716	(7 591)
COMBINED NET ASSETS, BEGINNING OF YEAR	<u>77 682</u>	<u>85 273</u>
COMBINED NET ASSETS, END OF YEAR	<u><u>89 398</u></u>	<u><u>77 682</u></u>

The accompanying notes are an integral part of the combined financial statements.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED STATEMENT OF NET ASSETS**

as at December 31, 2003

(in millions of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments at fair value (Note 3a)	116 085	103 863
Advances to depositors	987	1 157
Investment income, accrued and receivable	802	764
Transactions being settled	110	665
Other assets	<u>854</u>	<u>967</u>
	<u>118 838</u>	<u>107 416</u>
LIABILITIES		
Liabilities related to investments (Note 3b)	26 125	27 070
Transactions being settled	1 604	854
Other liabilities	796	889
Non-controlling interests (Note 3c)	<u>915</u>	<u>921</u>
	<u>29 440</u>	<u>29 734</u>
DEPOSITORS' HOLDINGS (Note 4)	<u>89 398</u>	<u>77 682</u>

COMMITMENTS (Note 10)

The accompanying notes are an integral part of the combined financial statements

On behalf of the Board of Directors,
 Henri-Paul Rousseau
 Jean-Claude Bachand

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS**

as at December 31, 2003

(in millions of dollars)

1. CONSTITUTION AND OPERATIONS

The Caisse de dépôt et placement du Québec, is a legal person within the meaning of the Civil Code, created by a special act (R.S.Q., chapter C-2). It receives funds, the deposit of which is provided under the act. Pursuant to both the federal and provincial income tax acts, the Caisse is not subject to income taxes.

GENERAL FUND (Consolidated statements)

The General Fund is comprised of diversified investments and is a pooled fund for demand, term and participation deposits. The General Fund's net equity and net income as at December 31 were shared among participation deposit holders as follows:

	2003		2002	
	Number of units	%	Number of units	%
Régie des rentes du Québec				
Fonds du Régime de rentes du Québec	22 642 577	100.0	21 734 582	98.2
Régime de rentes de survivants			396 952	1.8
La Financière agricole du Québec				
Office de la protection du consommateur				
Fonds des cautionnements des agents de voyages				
Cautionnements collectives				
Retailers			3 258	
Cautionnements individuels			1 117	
Magazine Protégez-vous			2 100	
Régie des marchés agricoles et alimentaires du Québec				
Fonds d'assurance-garantie			5 236	
Fédération des producteurs de bovins du Québec			2 662	
	<u>22 642 577</u>	<u>100.0</u>	<u>22 145 907</u>	<u>100.0</u>

On January 1st, 2003, the share of net assets of the Fédération des producteurs de bovins du Québec, The Régime de rentes des survivants, the Fonds d'assurance-garantie and the Fonds des cautionnements des agents de voyages (cautionnements collectifs détaillants et cautionnements individuels) in the General Fund, which represented a portion of the net holdings of participation deposit holders of such fund, was transferred into individual funds, created at that date for these depositors. The fair value of the net assets transferred, established on December 31, 2002, was \$307 million. Depositor Magazine Protégez-Vous cancelled all its General Fund units as at January 1st, 2003.

INDIVIDUAL FUNDS

The Individual Funds are composed of diversified investments and each fund has only one depositor that exclusively makes participation deposits therein. The various individual funds are:

Fund 301

For the Government and Public Employees Retirement Plan administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 302

For the Pension Plan for Management administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 303

For individual plans administered by the Commission administrative des régimes de retraite et d'assurances;

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS**

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2003
(in millions of dollars)

1. CONSTITUTION AND OPERATIONS (cont'd)**INDIVIDUAL FUNDS (cont'd)****Fund 305**

For the Pension Plan for Elected Municipal Officers administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 306

For the Régime complémentaire de rentes des techniciens ambulanciers oeuvrant au Québec;

Fund 307

For the Société de l'assurance automobile du Québec;

Fund 311

For the Supplemental Pension Plan for Employees of the Québec Construction Industry - general account - administered by the Commission de la construction du Québec;

Fund 312

For the Supplemental Pension Plan for Employees of the Québec Construction Industry - retirees account - administered by the Commission de la construction du Québec;

Fund 313

For the Supplemental Pension Plan for Employees of the Québec Construction Industry - supplementary account - administered by the Commission de la construction du Québec;

Fund 314

For the Régie de l'assurance-dépôts du Québec;

Fund 315

For the Fonds d'assurance-prêts agricoles et forestiers administered by La Financière agricole du Québec;

Fund 316

For the Fonds d'amortissement du régime de retraite – RREGOP administered by the ministère des Finances, de l'Économie et de la Recherche, Government of Québec;

Fund 317

For the Fonds d'amortissement du régime de retraite – RRPE administered by the ministère des Finances, de l'Économie et de la Recherche, Government of Québec;

Fund 318

For the Fonds d'amortissement des autres régimes de retraite administered by the ministère des Finances du Québec;

Fund 325

For the Fonds d'assurance-stabilisation des revenus agricoles administered by La Financière agricole du Québec;

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2003
(in millions of dollars)

1. CONSTITUTION AND OPERATIONS (cont'd)

INDIVIDUAL FUNDS (cont'd)

Fund 326

For the Fonds d'assurance récolte administered by La Financière agricole du Québec;

Funds 327

For the Fédération des producteurs de bovins du Québec;

Fund 328

For the Régime de rentes de survivants administered by the Conseil du trésor, Government of Québec;

Fund 329

For the Fonds d'assurance-garantie administered by the Régie des marchés agricoles et alimentaires du Québec;

Fund 330

For the Commission de la santé et de la sécurité du travail;

Fund 332

For the Fonds des cautionnements des agents de voyages – cautionnements individuels, administered by the Office de la protection du consommateur;

Fund 333

For the Fonds des cautionnements des agents de voyages – cautionnements collectifs : détaillants, administered by the Office de la protection du consommateur.

SPECIALIZED PORTFOLIOS

The specialized portfolios are pooled funds for participation deposits of the various Funds. The specialized portfolios are the following:

- Bonds	- EAFE Foreign Equity - unhedged
- Quebec International	- Mortgages (consolidated statements)
- Canadian Equity	- Real Estate (consolidated statements)
- Hedge Fund Partnership Units (consolidated statements) (previously known as Diversified, Strategic and Tactical Investments)	- Short-Term Investments
- U.S. Equity - hedged	- Asset Allocation and Currencies (created on May 1 st , 2003)
- U.S. Equity - unhedged	- Private Equity (consolidated statements) (created on July 1 st , 2003)
- Emerging Markets Equity	- Investment and Infrastructures (consolidated statements) (created on July 1 st , 2003)
- EAFE Foreign Equity – hedged	

2. ACCOUNTING POLICIES

The combined financial statements of the Caisse have been prepared by management in accordance with generally accepted accounting principles in Canada. These statements include amounts based on best judgement and estimates.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2003

(in millions of dollars)

2. ACCOUNTING POLICIES (cont'd)**a) Combined financial statements**

The combined financial statements include the accounts of the Caisse's subsidiaries, along with those of the General Fund, the Individual Funds, and the specialized portfolios. The accounts of each fund and each portfolio are represented in financial statements audited by the Auditor General of Québec.

b) Investments and joint operations

Investments and related assets and liabilities are accounted for at fair value, which is the estimated exchange value that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act, established at year-end.

Fixed-income securities

Fixed-income securities comprise short-term investments, bonds and mortgages. These securities are recorded as at the commitment date, except mortgages, which are recorded as at the date of agreement.

i) Valuation method

The fair value of fixed-income securities is determined by means of valuation methods used in capital markets, such as the annualization of future cash flows at the current interest rate and the closing prices of the major stock exchanges as well as those provided by recognized financial institutions. In addition, certain valuations are made according to commonly used valuation methods or on the basis of similar arm's-length transactions.

ii) Investment income and gains and losses on the sale of investments

Investment income from fixed-income securities includes amortization of the premium and the discount, which makes it possible to maintain a constant real return until maturity.

Gains and losses on the sale of investments represent the difference between the unamortized cost and the net realizable fair value on the sale of investments. The unamortized cost corresponds to the acquisition cost and the costs inherent to the acquisition of investments, and is restated in order to take into account amortization of the premium or the discount.

Variable-income securities

Variable-income securities comprise equities and convertible securities as well as real estate holdings. Equities and convertible securities are recorded as at the commitment date whereas real estate holdings are recorded as at the date of agreement.

i) Valuation method

The fair value of equities traded on a stock exchange is determined from the closing prices on the major stock exchanges as well as those provided by recognized financial institutions. For equities not traded on a stock exchange and real estate holdings, valuations are made by independent valuers, while others are made according to commonly used valuation methods or on the basis of similar arm's-length transactions. The valuations of equities and convertible securities that are not publicly traded are reviewed annually by an independent valuation committee.

ii) Investment income and gains and losses on the sale of investments

Dividend income is recognized on the ex-dividend date. Income from real estate holdings is reduced by operating expenses related to real estate holdings, operation expenses and loan financial expenses under the item Investment income – Variable-income securities.

Gains and losses on the sale of investments represent the difference between the cost and the net realizable value on the sale of investments. The cost corresponds to the acquisition cost and the costs inherent to the acquisition of investments.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2003

(in millions of dollars)

2. ACCOUNTING POLICIES (cont'd)**b) Investments and joint operations (cont'd)***Derivative financial instruments*

Pursuant to its investment operations management, the Caisse conducts transactions involving various derivative financial instruments in order to manage the risks associated with exchange rate, interest rate and market fluctuations.

Derivative financial instruments whose fair value is favourable are recorded in the item Investments, while those whose fair value is unfavourable are recorded in Liabilities related to investments.

i) Valuation method

Derivation financial instruments are recorded at their fair value at year-end. These values are established from closing prices on the major stock exchanges as well as those provided by recognized financial institutions. In the case of unlisted instruments, certain valuations are made on the basis of similar arm's-length transactions, or according to recognized, commonly used models.

ii) Investment income and gains and losses on the sale of investments

Investment income from derivative financial instruments is included in Income from fixed-income and variable-income securities, whereas gains and losses relative to derivative financial instruments are included in Gains (losses) on the sale of investments as a function of the underlying investments. As of December 31, 2001, the balance of deferred gains and losses on derivative financial instruments used to hedge foreign exchange risks is recorded in Gains and losses on the sale of investments based on disposal of foreign investments.

Securities acquired under reverse repurchase agreements

The Caisse conducts securities borrowing operations involving short-term investments and bonds in order to cover short sales or to generate additional income from security borrowing operations. These security borrowing operations are recorded under Securities acquired under reverse repurchase agreements. Interest earned on reverse repurchase agreements is recorded as interest income under the item Investment income – Fixed-income securities.

Securities sold under repurchase agreements

The Caisse conducts security lending operations involving short-term investments and bonds in order to generate cash flow liquidity purposes or to generate additional income from security lending operations. These security lending operations are recorded under Securities sold under repurchase agreements. Interest paid on repurchase agreements is reduced by investment income – Fixed-income securities.

Short selling of securities

Short selling of securities represents the commitment by the Caisse to purchase securities that it did not hold at the time of the sale. Interest related to commitments involving short selling of short-term investments and bonds is recorded under Investment income – Fixed-income securities, while costs related to commitments involving short selling of equities are recorded under Investment income – Variable-income securities.

Gains and losses on commitments related to short selling of short-term investments and bonds are recorded in Gains and losses on the sale of investments – Fixed-income securities, while those related to short selling of equities are recorded in Gains and losses on the sale of investments – Variable-income securities.

c) Administered property and property under management

Some subsidiaries of the Caisse administer and manage property entrusted to them by clients and on their behalf. This property is not included in the combined statement of net assets of the Caisse. Some subsidiaries of the Caisse receive fees in return for the portfolio management services and administrative services provided, which include administration of real estate properties and management of securitized loans.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2003

(in millions of dollars)

2. ACCOUNTING POLICIES (cont'd)**d) Foreign currency translation**

The fair value of investments and any other assets and liabilities denominated in foreign currencies is translated into Canadian dollars at the rate of exchange prevailing at year-end.

The cost of investments in securities and that of real estate holdings from integrated foreign operations and the unamortized costs of investments in bonds, mortgages and short-term investments are translated at the rate prevailing on the acquisition date. The cost of investments from self-sustaining foreign operations is translated at the rate prevailing at year-end.

Income is translated at the rate of exchange prevailing on the transaction date, with the exception of income from the specialized real estate portfolio which is translated at the average rate for the year-end.

e) Loan securitization

The Caisse periodically securitizes loans by selling loans to a collateralized security entity which then issues securities to investors. Such transactions are recorded as sales where the Caisse is deemed to have abandoned control over such assets and to have received compensation other than the beneficial rights attached to the assets disposed of, in accordance with Accounting Guideline No. 12. At the time of securitization, no beneficial right attached to the securitized loans is retained. Any gains and losses deriving from such transactions are recorded in Gains (losses) on sale of investments – Mortgages.

The Caisse usually continues to manage loans after disposition. Since management fees are established based on market, no assets or liabilities under management have been recorded as at the date of disposition.

f) Operating expenses

Operating expenses cover all expenses related to investment operations, including expenses paid to external financial institutions and are presented under a specific item, with the exception of those related to real-estate management and operation expenses, which are deducted from the real-estate holding investment income.

3. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS**a) Investments**

	2003		2002	
	Fair value	Cost	Fair value	Cost
Fixed-income securities				
Short-term investments				
Canadian	10 429	10 448	4 427	4 460
Foreign	912	929	1 245	1 261
Amounts carried forward	11 341	11 377	5 672	5 721

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2003

(in millions of dollars)

3. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**a) Investments (cont'd)**

	2003		2002	
	Fair value	Cost	Fair value	Cost
Amounts brought forward	11 341	11 377	5 672	5 721
Fixed-income securities (cont'd)				
Bonds				
Securities issued or guaranteed by:				
Canadian government	14 250	14 103	7 650	7 386
Province of Québec	12 901	11 778	12 919	11 792
Other Canadian provinces	253	244	271	266
Municipalities and other Canadian bodies	1 201	1 085	1 377	1 227
Canadian government corporations	5 576	4 739	5 032	4 200
U.S. government	1 518	1 570	633	584
Other foreign governments	931	935	204	180
Mortgage securities	532	529	97	92
Canadian corporations	5 138	5 092	3 941	4 044
Foreign corporations	866	1 414	1 941	2 371
	43 166	41 489	34 065	32 142
Mortgages				
Canadian	3 248	3 166	3 896	3 748
Foreign	376	380	648	625
	3 624	3 546	4 544	4 373
Total fixed-income securities	58 131	56 412	44 281	42 236
Variable-income securities				
Equities and convertible securities				
Canadian	16 703	16 577	16 118	19 407
U.S.	10 845	12 362	9 720	12 072
Foreign and emerging markets	11 686	11 542	10 194	11 851
Other	2 237	2 510	2 472	2 685
	41 471	42 991	38 504	46 015
Real estate holdings				
Canadian	8 859	8 848	9 100	9 360
Foreign	5 031	5 128	7 665	7 226
	13 890	13 976	16 765	16 586
Total variable-income securities	55 361	56 967	55 269	62 601
Amounts carried forward	113 492	113 379	99 550	104 837

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2003

(in millions of dollars)

3. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**a) Investments (cont'd)**

	2003		2002	
	Fair value	Cost	Fair value	Cost
Amounts brought forward	113 492	113 379	99 550	104 837
Amounts to be received in respect of investments				
Canadian securities acquired under reverse repurchase agreements	413	413	1 111	1 111
Foreign securities acquired under reverse repurchase agreements	806	816	2 038	2 011
Amount pertaining to Canadian derivative products	191	10	202	12
Amount pertaining to foreign derivative products	1 183	356	962	196
	2 593	1 595	4 313	3 330
Total investments	116 085	114 974	103 863	108 167

b) Liabilities related to investments

	2003		2002	
	Fair value	Cost	Fair value	Cost
Canadian securities sold under repurchase agreements	9 567	9 566	9 403	9 401
Foreign securities sold under repurchase agreements	2 258	2 290	2 161	2 143
Commercial paper payable	2 376	2 376		
Medium-term note	752	750		
Canadian loans payable	420	419	563	565
Foreign loans payable	34	34	127	137
Canadian commercial mortgage-backed securities	628	599	646	608
Short selling of Canadian securities	4 143	3 691	4 421	4 470
Short selling of foreign securities	342	317	1 553	1 568
Canadian mortgage loans payable	2 026	1 893	2 422	2 307
Foreign mortgage loans payable	2 569	2 546	4 035	3 981
Amount pertaining to Canadian derivative products	103	24	219	36
Amount pertaining to foreign derivative products	907	319	1 520	164
	26 125	24 824	27 070	25 380

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2003

(in millions of dollars)

3. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**c) Non-controlling interests**

	2003		2002	
	Fair value	Cost	Fair value	Cost
Canadian	400	434	430	489
Foreign	515	340	491	343
	<u>915</u>	<u>774</u>	<u>921</u>	<u>832</u>

d) Summary geographic breakdown at market value of investments and liabilities related to investments

	2003			2002		
	Canadian	Foreign	Total	Canadian	Foreign	Total
Investments						
Fixed-income securities	52 751	5 380	58 131	38 916	5 365	44 281
Equities and convertible securities	16 703	24 768	41 471	16 118	22 386	38 504
Real estate holdings	8 859	5 031	13 890	9 100	7 665	16 765
Amounts to be received in respect of investments	<u>604</u>	<u>1 989</u>	<u>2 593</u>	<u>1 313</u>	<u>3 000</u>	<u>4 313</u>
	<u>78 917</u>	<u>37 168</u>	<u>116 085</u>	<u>65 447</u>	<u>38 416</u>	<u>103 863</u>
Liabilities related to investments	<u>20 015</u>	<u>6 110</u>	<u>26 125</u>	<u>17 674</u>	<u>9 396</u>	<u>27 070</u>
Non-controlling interests	<u>400</u>	<u>515</u>	<u>915</u>	<u>430</u>	<u>491</u>	<u>921</u>

e) Summary of maturities of investments and liabilities related to investments at par value

	2003				Effect-ive interest rate	2002	
	Less than 2 years	2 to 5 years	More than 5 years	Total		Total par value	Effect-ive interest rate
Fixed-income securities							
Short-term investments							
Canadian	8 892	1 482	120	10 494	3.0 %	4 472	3.4 %
Foreign	<u>236</u>	<u>353</u>	<u>323</u>	<u>912</u>	<u>4.2</u>	<u>1 291</u>	<u>5.2</u>
Amounts carried forward	<u>9 128</u>	<u>1 835</u>	<u>443</u>	<u>11 406</u>	<u>3.1 %</u>	<u>5 763</u>	<u>3.8 %</u>

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2003

(in millions of dollars)

3. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)

e) Summary of maturities of investments and liabilities related to investments at par value (cont'd)

	2003					2002	
	Less than 2 years	2 to 5 years	More than 5 years	Total	Effect- ive interest rate	Total par value	Effect- ive interest rate
Amounts brought forward	9 128	1 835	443	11 406	3.1 %	5 763	3.8 %
Fixed-income securities							
(cont'd)							
Bonds							
Securities issued or guaranteed							
by:							
Canadian government	3 958	2 956	6 639	13 553	4.1	7 049	5.0
Province of Québec	1 497	2 711	7 213	11 421	6.3	11 470	6.4
Other Canadian provinces		50	193	243	5.5	247	5.7
Municipalities and other							
Canadian bodies	337	380	329	1 046	7.1	1 168	7.2
Canadian government							
corporations	283	796	3 621	4 700	6.5	4 230	7.5
U.S. government	41	370	1 328	1 739	4.6	826	5.3
Other foreign governments	59	286	659	1 004	3.5	308	5.7
Mortgage securities	3	32	494	529	8.6	92	7.5
Canadian corporations	604	2 970	1 277	4 851	5.6	3 929	6.3
Foreign corporations	244	314	933	1 491	4.9	2 272	6.3
	7 026	10 865	22 686	40 577	5.4	31 591	6.2
Mortgages							
Canadian	865	827	1 474	3 166	7.0	3 748	7.2
Foreign	267		113	380	8.6	625	9.4
	1 132	827	1 587	3 546	7.2	4 373	7.5
	17 286	13 527	24 716	55 529	5.0 %	41 727	6.0 %
Amounts to be received							
with respect to investments							
Canadian securities acquired							
under reverse repurchase							
agreements							
	465			465	2.8 %	1 104	2.7 %
Foreign securities acquired							
under reverse repurchase							
agreements							
	807			807	0.9	2 195	1.3
	1 272			1 272	1.6 %	3 299	1.8 %

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2003

(in millions of dollars)

3. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**e) Summary of maturities of investments and liabilities related to investments at par value (cont'd)**

	2003				2002	
	Less than 2 years	2 to 5 years	More than 5 years	Total	Effect- ive interest rate	Total per value
Liabilities related to investments						
Securities sold under repurchase agreements	11 552			11 552	2.5 %	12 558
Commercial paper payable	2 388			2 388	2.7	
Medium-term note		750		750	4.1	
Loans payable	466			466	3.1	701
Canadian commercial mortgage-backed securities	18	15	566	599	6.4	608
Short selling of securities	88	207	1 725	2 020	4.8	2 783
Mortgage loans payable	837	2 389	1 285	4 511	6.5	6 295
	<u>15 349</u>	<u>3 361</u>	<u>3 576</u>	<u>22 286</u>	<u>3.7 %</u>	<u>22 945</u>
						<u>3.8 %</u>

The balance of losses on derivative financial foreign exchange risk hedging instruments reported in the cost of investments as of December 31, 2001, was \$263 million as at December 31, 2003 (\$540 million in 2002).

The fair value of investments in short-term investments, bonds, equities and convertible securities, includes investments in private companies, in the amount of \$1 061 million, \$478 million and \$5 710 million respectively as at December 31, 2003 (\$1 525 million in short-term investments, \$771 million in bonds, and \$5 373 million in equities and convertibles securities in 2002), for which market prices are not available.

In addition, the \$2 324 million (\$6 068 million of losses in 2002) of gains on the sale of investments recorded in the combined statement of changes in net assets includes \$1 024 million in foreign exchange gains (\$317 million in foreign exchange losses in 2002).

4. DEPOSITORS' HOLDINGS

Demand and term deposits bear interest, and constitute the Caisse's indebtedness toward the depositors.

Participation deposits are expressed in units and each unit gives its holder a proportionate share in the net equity and net income of a particular Fund. At the end of each monthly period for the General Fund and the Individual Funds, the net investment income and gains and losses on the sale of investments are distributed to participation deposit holders. At the beginning of the following period, the amounts distributed are paid out to (recovered from) the depositors' demand deposit accounts.

	2003	2002
Caisse's indebtedness toward depositors		
Demand deposits	36	155
Term deposits	18	23
Interest on demand and term deposits	(1)	(1)
Net income to be paid out to participation deposit holders	<u>184</u>	<u>195</u>
Amounts carried forward	<u>237</u>	<u>372</u>

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2003

(in millions of dollars)

4. DEPOSITORS' HOLDINGS (cont'd)

	2003	2002
Amounts brought forward	237	372
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of period	84 702	80 190
Units issued	3 983	5 107
Units cancelled	(1 479)	(595)
Balance, end of period	87 206	84 702
Amount not allocated with respect to real estate holdings *	47	56
Unrealized increase (decrease) in value allocated following interfund transactions	73	22
Amount not allocated following gains and losses on the sale of investments in the specialized portfolios **	2 166	(1 387)
Unrealized increase (decrease) in the value of investments and other related assets and liabilities	(331)	(6 083)
	89 161	77 310
Depositors' holdings	89 398	77 682

* Represents the restated amount of accumulated amortization of real estate properties resulting from the recording of investments at fair value. This amount will be allocated upon the sale of the properties.

** Represents the gains and losses on the sale of investments in the specialized portfolios that are not distributed at year-end. This amount will be allocated upon the sale of the participation units in portfolios.

5. INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASE (DECREASE) IN THE VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

a) Net investment income

	2003	2002
Fixed-income securities		
Short-term investments	249	208
Bonds	1 629	1 856
Mortgages	267	259
	2 145	2 323
Variable-income securities		
Equities and convertible securities	869	696
Real estate holdings (Note 5b)	678	736
	1 547	1 432
Other income	33	56
Non-controlling interests	(63)	(57)
	3 662	3 754

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2003

(in millions of dollars)

5. INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASE (DECREASE) IN THE VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)
b) Net income from real estate holdings

	2003	2002
Income from real estate holdings	2 163	2 360
Less :		
Expenses related to real estate subsidiaries		
Operating expenses related to real estate holdings	1 085	1 166
Operation expenses	51	66
Loan financial expenses	356	403
	1 492	1 635
Other income	7	11
	678	736

c) Gains (losses) on sale of investments

	2003	2002
Fixed-income securities		
Short-term investments	(101)	186
Bonds	740	66
Mortgages	97	9
	736	261
Variable-income securities		
Equities and convertible securities	1 135	(6 317)
Real estate holdings	458	(10)
	1 593	(6 327)
Non-controlling interest	(5)	(2)
	2 324	(6 068)

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2003

(in millions of dollars)

5. INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASE (DECREASE) IN THE VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**d) Unrealized increase (decrease) in the value of investments and liabilities related to investments**

	2003	2002
Fixed-income securities		
Short-term investments	(108)	164
Bonds	(632)	524
Mortgages	(93)	76
Securities acquired under reverse repurchase agreements	(25)	(11)
	(858)	753
Variable-income securities		
Equities and convertible securities	6 367	(6 185)
Real estate holdings	(103)	(226)
	6 264	(6 411)
Total investments	5 406	(5 658)
Less:		
Liabilities related to investments		
Medium-term note	2	
Loans payable	13	(2)
Commercial mortgage-backed securities	(9)	22
Securities sold under repurchase agreements	(51)	(8)
Short selling of securities	541	(352)
Mortgage loans payable	(13)	93
Derivative financial instruments	(872)	550
Non-controlling interests	52	20
	(337)	323
	5 743	(5 981)

6. OPERATING EXPENSES

	2003	2002
Salaries and employee benefits	101	101
Professional fees	42	48
Premises and equipment	13	8
Depreciation of fixed assets	20	19
External – management and safekeeping of securities	16	14
Other	13	31
	205	221
Reorganization costs (Note 7)		37
	205	258

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2003

(in millions of dollars)

6. OPERATING EXPENSES (cont'd)

The Caisse changed the presentation of operating expenses in 2003. First, management and administration expenses, which were previously presented separately, are now reported together under Operating expenses. Secondly, operation expenses incurred directly by the real estate subsidiaries are charged against income from real estate holdings, while operation expenses incurred by the Caisse for the management of real estate and mortgage portfolios are now included in operating expenses. Figures for the year 2002 were reclassified in order to conform to the new presentation.

7. REORGANIZATION COSTS

The combined results for 2002 include reorganization costs in the amount of \$37 million charged to operating expenses. These costs derive from the reorganization of investment operations, corporation functions and institutional services carried out in December 2002. Costs include termination allowances, professional services including consultant contracts cancelled due to the downsizing of some foreign operations, professional services in connection with the corporate appraisal process, and other costs, such as lease and equipment rental contracts cancelled. The year-end residual balance as at December 31, 2003 is recorded under Other liabilities in the combined statement of net assets.

	Reorganiz- -ation costs incurred	Amount paid	Residual balance at December, 31, 2003	Residual balance at December, 31, 2002
Termination allowances	11	11		10
Other termination allowances for permanent and contractual employees due to downsizing some foreign operations	11	8	3	11
Professional fees	10	8	2	9
Other	5	2	3	4
	<u>37</u>	<u>29</u>	<u>8</u>	<u>34</u>

8. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value fluctuates as a function of the underlying security, and which do not require holding or delivery of the underlying good itself. The underlying good may be of a financial nature (interest rate, foreign currency, stock market security or index) or a commodity (precious metal, foodstuff, oil).

The notional amount of a derivative financial instrument represents the value of the theoretical capital to which a rate or a price applies in order to determine the exchange of future financial returns, and does not reflect the credit risk pertaining to the instrument.

The Caisse uses derivative financial instruments that include those described below:

Forward contracts and futures contracts are undertakings that enable the purchase or sale of an underlying good, the quantity and price of which are determined in the contract by a predetermined delivery date. A forward contract involves customized conditions negotiated directly between the parties on the over-the-counter market. A futures contract has terms and conditions determined by an organized market.

A swap is a transaction whereby two parties agree to exchange financial returns on predetermined conditions that include a notional amount and a term.

An option is a contract negotiated by mutual agreement or traded on an organized market, giving the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, at a strike price stipulated in advance, either at a determined date or at any time before a specified maturity.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2003

(in millions of dollars)

8. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Foreign exchange risk arises from investments and liabilities related to investments denominated in foreign currencies as well as related derivative financial instruments. In order to manage the exchange risk, the Caisse uses instruments negotiated with banks; maturities generally range from one to three months in the case of forward exchange contracts and options, and from one to two years for foreign currency swaps. Upon maturity, new derivative financial instruments are negotiated in order to maintain effective long-term management of foreign exchange risks associated with investments and liabilities related to investments in foreign currencies.

Moreover, swaps, futures contracts and options negotiated with counterparties are used to manage the interest rate and market risks of the total investment portfolio, as well as to generate additional income or expenses, which is included under Investment income from fixed-income and variable-income securities.

These transactions are negotiated with counterparties whose credit rating is established by a recognized credit rating agency and operational limits are duly approved by management, which supports signing compensation agreements in order to limit credit risks.

a) Summary of derivative financial instruments

	2003			2002
	Notional amount	Assets	Fair Value Liabilities	Net amount
Foreign exchange risk management				
Foreign currency swaps	465	3	106	(103)
Forward contracts	14 681	387	86	301
Over-the-counter foreign currency options				
Purchases	1 026	60		60
Sales	420		47	(47)
	16 592	450	239	211
Interest rate and market risk management				
Interest rate and foreign currency swaps	44 006	176	360	(184)
Equity swaps	5 462	168	1	167
Forward contracts	18 170	218	175	43
Futures contracts	12 331			
Exchange-traded options				
Purchases	2 746	5		5
Sales	5 373		5	(5)
Over-the-counter options				
Purchases	50 540	357		357
Sales	36 563		230	(230)
	175 191	924	771	153
Total derivative financial instrument contracts	191 783	1 374	1 010	364
				(575)

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2003

(in millions of dollars)

8. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)**b) Summary of derivative financial instrument maturities**

	2003				2002
	Notional amount – Maturity				Notional amount
	Less than 2 years	2 to 5 years	More than 5 years	Total	
Foreign exchange risk management					
Foreign currency swaps	20	96	349	465	570
Forward contracts	14 681			14 681	28 425
Over-the-counter foreign currency options					
Purchases	1 011	15		1 026	712
Sales	420			420	499
	<u>16 132</u>	<u>111</u>	<u>349</u>	<u>16 592</u>	<u>30 206</u>
Interest rate and market risk management					
Interest rate and foreign currency swaps	7 758	8 390	27 858	44 006	29 659
Equity swaps	2 984	2 474	4	5 462	4 057
Forward contracts	18 170			18 170	22 972
Futures contracts	11 991	340		12 331	22 062
Exchange-traded options					
Purchases	2 746			2 746	5 529
Sales	5 373			5 373	15 599
Over-the-counter options					
Purchases	45 910	2 089	2 541	50 540	20 845
Sales	33 994	1 473	1 096	36 563	13 282
	<u>128 926</u>	<u>14 766</u>	<u>31 499</u>	<u>175 191</u>	<u>134 005</u>
Total derivative financial instrument contracts	<u>145 058</u>	<u>14 877</u>	<u>31 848</u>	<u>191 783</u>	<u>164 211</u>

9. SECURITIZATION

During the year, the Caisse securitized commercial mortgages in the amount of \$1 392.8 million through the issuance of commercial mortgage-backed securities (\$335.5 million in 2002). Some of these loans do not respect all of the criteria for transfers of receivables set out in the Accounting Guideline No. 12; therefore, the corresponding assets and liabilities are presented in the combined statement of net assets, for an amount of \$31.2 million, under Mortgages and Commercial mortgage-backed securities. Commercial mortgage-backed securities in the amount of \$1 512.4 million were issued in 2003 (\$352.5 million in 2002). The Caisse received net proceeds of \$1 493.9 million (\$346.1 million in 2002). A net gain of \$87.4 million, net of transaction costs, was recorded under Gains (losses) on sale of investments – Mortgages (\$7.6 million in 2002).

Commercial mortgage-backed securities acquired by the Caisse are recorded in the combined statement of net assets, Mortgage securities. As at December 31, 2003, these securities amounted to \$261.0 million (\$34.0 million in 2002). Securitization allowed the Caisse to generate \$0.8 million in 2003 (\$0.2 million in 2002). No losses are expected due to the nature and quality of the loans.

10. COMMITMENTS

The Caisse is committed to acquiring investments that will be settled during the coming years, under the terms and conditions of the agreements. As at December 31, 2003, these commitments totalled \$4 903 million (\$7 255 in 2002).

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS**

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2003
(in millions of dollars)

11. COLLATERALS

In the normal course of business, the Caisse conducts transactions involving the lending and borrowing of securities in exchange for collaterals or assets with various counterparties, with which clearing agreements have been signed in order to limit credit risk. In its securities-lending operations, the Caisse received assets as collateral. As at December 31, 2003, the Caisse pledged and received as collateral securities and other assets for amount of \$12 315 million (\$12 561 million in 2002) and \$3 468 million (\$5 197 million in 2002) respectively. The amount of the assets pledged as collateral consists of assets with a value of \$513 million (\$704 million in 2002), which were pledged to participate in clearing and payments systems, and deposited with depositories.

12. COMPARATIVE FIGURES

Certain figures from the 2002 financial statements have been reclassified in order to conform with the presentation adopted in 2003.

MANAGEMENT'S RESPONSIBILITY FOR COMBINED FINANCIAL REPORTING

The combined financial statements of the Caisse de dépôt et placement du Québec were prepared by management, which is responsible for the integrity and accuracy of such data. This responsibility includes selecting the appropriate accounting policies in accordance with generally accepted accounting principles in Canada. The combined financial statements may contain information based on the management best estimates and judgment and considers their relative importance.

The management is also responsible for the information and declarations disclosed in other sections of the Operations report, and ensures that the financial information presented elsewhere in this annual report is consistent with that shown in the financial statements.

The management maintains internal accounting control systems which are designed to provide reasonable assurance that assets are safeguarded and that transactions are recorded in an appropriate and timely manner, that they are duly authorized and allow for the preparation of reliable financial statements. The internal audit team reviews the internal controls on a regular basis to ensure they are adequate and applied consistently by the Caisse.

The Caisse is aware of its responsibility to manage its operations in accordance with the rules and regulations that govern the institution.

The Board of Directors supervises the manner in which management assumes its responsibility regarding financial information, and it has approved the combined financial statements. The Board of Directors is assisted by the Audit Committee, of which all members are outside directors. The Audit Committee meets with management and the auditor, examines the financial statements and recommends their approval by the Board of Directors.

The combined financial statements of the Caisse are audited by the Auditor General of Québec, who conducted his audit in accordance with generally accepted auditing standards in Canada. The auditor's report covers the nature and scope of the audit and expresses the auditor's opinion on the financial statements. The Auditor General has unrestricted access to the Audit Committee to discuss any matter relating to his audit.

Henri-Paul Rousseau
Chairman of the Board and
Chief Executive Officer

Ghislain Parent
Executive Vice-President,
Finance, Treasury and Strategic Initiatives

Montréal, February 12, 2004

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the combined statement of net assets of the Funds of the Caisse de dépôt et placement du Québec as at December 31, 2003, along with the combined statement of income and changes in net assets for the year then ended. These financial statements are the responsibility of the Caisse's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in Canada. These standards require that I plan and perform an audit in such a way as to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my opinion, these combined financial statements present fairly, in all material respects, the financial position of these as at December 31, 2003, as well as the results of their operations and the changes in their net assets for the year then ended in accordance with accounting principles generally accepted in Canada. As required by the Auditor General Act (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Doris Paradis, CA
Acting Auditor General

Québec City, February 12, 2004

CAPITAL FINANCIÈRE AGRICOLE INC.
(R.S.Q., c. C-38)

REVENUE AND EXPENDITURE AND DEFICIT
For the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Interest on bank deposits and short-term investments	\$647 338	\$729 204
Interest on debentures	183 972	10 173
Fees	<u>67 700</u>	<u>37 000</u>
	<u>899 010</u>	<u>776 377</u>
EXPENDITURE		
Salaries and fringe benefits	531 341	422 965
Transportation and communication services	62 590	98 553
Rent	23 912	23 583
Professional, administrative and other services	70 020	194 317
Supplies and furnishings	4 019	10 938
Depreciation of fixed assets	2 051	177
Maintenance and repairs		24 844
Loss on write-off of investments	1 029 118	
Incorporation fees		<u>1 000</u>
	<u>1 723 051</u>	<u>776 377</u>
EXCESS OF EXPENDITURE OVER REVENUE AND DEFICIT AT THE END	<u><u>\$824 041</u></u>	<u><u></u></u>

CAPITAL FINANCIÈRE AGRICOLE INC.BALANCE SHEET
As at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$109 768	\$70 726
Short-term investments (Note 3)	19 858 130	23 008 151
Accounts receivable and accrued interest	34 962	301 848
La Financière agricole du Québec receivable		176 622
Instalment on investments (Note 4)	<u>75 809</u>	
	20 078 669	<u>23 557 347</u>
Investments (Note 4)	3 272 225	660 173
Fixed assets (Note 5)	<u>3 941</u>	<u>5 992</u>
	<u>\$23 354 835</u>	<u>\$24 223 512</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$34 662	\$150 401
Owed to La Financière agricole du Québec	39 149	
Provision for vacation time	<u>56 383</u>	<u>36 816</u>
	130 194	187 217
Provision for sick leave (Note 6)	<u>48 682</u>	<u>36 295</u>
	<u>178 876</u>	<u>223 512</u>
SHAREHOLDERS EQUITY		
Capital stock (Note 8)	24 000 000	24 000 000
Deficit	<u>(824 041)</u>	
	<u>23 175 959</u>	<u>24 000 000</u>
	<u>\$23 354 835</u>	<u>\$24 223 512</u>

On behalf of the Board of Directors,
Michel R. St-Pierre, President
Jacques Desmeules, Director

CAPITAL FINANCIÈRE AGRICOLE INC.**CASH FLOW**

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Excess of expenditure over revenue	\$(824 041)	
Items not affecting cash flow		
Capitalized interest on investments	(156 979)	\$(10 173)
Depreciation of fixed assets	2 051	177
Loss on write-off of investments	1 029 118	
	<u>50 149</u>	<u>(9 996)</u>
Change in non-cash items related to operations		
Accounts receivable and accrued interest	266 886	(301 848)
Accounts payable and accruals	(115 739)	150 401
Owed to La Financière agricole du Québec	215 771	(176 622)
Provision for vacation time	19 567	36 816
Provision for sick leave	12 387	36 295
	<u>398 872</u>	<u>(254 958)</u>
Cash flow related to operating activities	<u>449 021</u>	<u>(264 954)</u>
INVESTMENT ACTIVITIES		
Acquisition of investments	(3 560 000)	(650 000)
Acquisition of fixed assets		(6 169)
Cash flow related to investment activities	<u>(3 560 000)</u>	<u>(656 169)</u>
FINANCING ACTIVITIES		
Cash flow related to share issuing		<u>24 000 000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3 110 979)	23 078 877
OPENING CASH AND CASH EQUIVALENTS	<u>23 078 877</u>	
CLOSING CASH AND CASH EQUIVALENTS	<u>\$19 967 898</u>	<u>\$23 078 877</u>
Closing cash and cash equivalents include:		
Cash on hand	\$109 768	\$70 726
Short-term investments	<u>19 858 130</u>	<u>23 008 151</u>
	<u>\$19 967 898</u>	<u>\$23 078 877</u>

CAPITAL FINANCIÈRE AGRICOLE INC.

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. STATUS AND NATURE OF ACTIVITIES

Capital Financière agricole inc. is a corporation incorporated under Part 1A of the Québec Companies Act (R.S.Q., c. C-38). Using venture capital, it supports projects structuring the development of agricultural production, processing in the regions and products and services upstream or downstream of the farm sector to the extent that these projects present a significant advantage for the primary sector.

2. ACCOUNTING POLICIES

The financial statements of Capital Financière agricole inc. were drawn up by management in keeping with the accounting principles generally recognized in Canada. These statements include amounts based on best judgements and estimates.

Short-term investments

Short-term investments are recorded at cost or market value, whichever is less.

Investments

Venture capital investments take the form of capital-stock or debentures. The Corporation records its investments at consolidation value when its share in an issuing corporation's voting securities allow it to exercise significant influence on this corporation's financial and administrative decisions. Capital-stock investments, for which the corporation exercises no control or notable influence, and debentures are recorded at acquisition cost plus accrued interest minus all long-term capital losses and provisions for losses, where applicable.

An investment is classified a doubtful loan when the credit quality has deteriorated to the point that the corporation is no longer reasonably certain of recovering all capital and interest. At this time, interest income is no longer recorded and a provision for losses is posted.

Provision for losses

If loans are deemed doubtful, their book value is posted as their estimated realizable value. If the amounts and moment of realization of future cash flows cannot be reasonably estimated, the estimated realization values are measured according to the observable market prices for these loans or according to the judgement of the corporation's management.

The provision is established on a case-by-case basis and posted as soon as the losses can be reasonably evaluated. The annual variation in this provision is posted to the statement of revenue and expenditure.

Fixed assets

Materials and equipment are recorded at acquisition cost and amortized over their service life using the straight-line method at a rate of 33.33%.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that La Financière agricole lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

The Corporation's policy consists in presenting, as cash and cash equivalents, bank balances, short-term investments and bank borrowings maturing within three months of the acquisition date.

CAPITAL FINANCIÈRE AGRICOLE INC.NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**3. SHORT-TERM INVESTMENTS**

	2004	2003
Bonds		\$15 650 628
Promissory note, 2.25%, maturing April 28, 2004 (market value is of \$698 845)	\$698 236	
Commercial papers, 2.29% and 2.37%, maturing by April 31, 2004 (market value, at March 31, 2004: \$19 188 037; at March 31, 2003: equal to cost)	19 159 894	7 357 523
	<u>\$19 858 130</u>	<u>23 008 151</u>

4. INVESTMENTS

	2004	2003
Common capital stock – portfolio investments	\$350 000	\$200 000
Common capital stock – satellite corporation	125 000	
	<u>475 000</u>	<u>200 000</u>
Debentures, 9% and 10%, maturing by February 2014 Capital and capitalized interest are cashable as follows: \$75 809 in 2005, \$262 918 in 2006, \$409 464 in 2007 \$427 437 in 2008 and \$1 697 406 for future fiscal years. Current portion	2 873 034 (75 809)	460 173
	<u>2 797 225</u>	<u>460 173</u>
	<u>\$3 272 225</u>	<u>\$660 173</u>

Under Order-in-Council 1453-2002 of December 11, 2002, Capital Financière agricole inc. and the parent company La Financière agricole du Québec (the Group) are authorized to extend loans, advances and contributions or make financial commitments in favour of a physical person, legal person or corporation for an amount not exceeding \$5 million. Moreover, the Group may not hold more than 49% of the voting shares in a company or legal person. Further, the Corporation's board of directors has adopted an investment policy that sets maximum investments of any type at \$1.2 million per entity.

Investment in the satellite corporation is recorded at acquisition cost given that the investment was made at the end of the fiscal year and, consequently, no share in the results of this company is recorded at March 31, 2004.

At March 31, 2004, there was no provision for losses.

5. FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Materials and equipment	\$6 169	\$2 228	\$3 941	\$5 992

CAPITAL FINANCIÈRE AGRICOLE INC.NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**6. PROVISION FOR SICK LEAVE**

	2004	2003
Opening balance	36 295 \$	
Provisions transferred from La Financière agricole du Québec		\$32 609
Expenditure for the year	16 315	4 376
Benefits paid during the year	(3 928)	(690)
Closing balance	<u>\$48 682</u>	<u>\$36 295</u>

7. PENSION PLANS

The staff members of Capital Financière agricole inc. participate in the Government and Public Employees Retirement Plan (RREGOP) and Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The contributions of Capital Financière agricole inc. posted to results for the fiscal year total \$15 945 (2003: \$9 700). Capital Financière agricole inc.'s obligations vis-à-vis these government plans is limited to its employer contributions.

8. CAPITAL STOCK**Authorized:**

Unlimited number of class A shares, participating and voting, without nominal value.

Unlimited number of class B shares, non-cumulative preferred dividend of 5% on amount paid, participating, non-voting, redeemable by the corporation at the amount paid, without nominal value.

Unlimited number of class C shares, cumulative preferred dividend of 2% on amount paid, non-participating, non-voting, redeemable by the corporation at the amount paid, without nominal value.

Unlimited number of class D shares, participating, voting, redeemable by holders or the corporation at the amount paid, without nominal value.

Issued and paid:

	2004	2003
24 000 class A shares	<u>\$24 000 000</u>	<u>\$24 000 000</u>

9. RELATED PARTY TRANSACTIONS

The main transactions with the parent company were as follows:

	2004	2003
Salaries and fringe benefits	\$201 594	\$155 485
Transportation and communication service	3 322	4 666
Rent	20 292	19 739
Professional, administrative and other services		68 931
Incorporation fees		1 000

CAPITAL FINANCIÈRE AGRICOLE INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

9. RELATED PARTY TRANSACTIONS (cont'd)

The parent company also provided Capital Financière agricole inc. with professional services for no consideration. These services, estimated at \$215 047 for the fiscal year ended March 31, 2004 (2003: \$174 344), are measured at exchange value and are not recorded in the financial statements.

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, Capital Financière agricole inc. is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. Capital Financière agricole inc. did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

10. FINANCIAL INSTRUMENTS**Fair value**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

The long-term financial instruments held by the Corporation have no market price. However, the fair value of some of these instruments was determined through valuation systems used in venture capital markets. The following assumptions and calculation methods were used:

- Common shares in privately owned utilities are presented at acquisition cost unless a concrete, quantifiable event with a significant impact on the company's value justifies a value increase or decrease. However, if certain instruments remain at acquisition cost for longer than 36 months in the absence of events, they will be assessed in greater detail.

CAPITAL FINANCIÈRE AGRICOLE INC.**MANAGEMENT'S REPORT**

The financial statements of the Capital Financière agricole inc. were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

Capital Financière agricole inc. recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the way in which management fulfils its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Centre's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Pour Capital Financière agricole inc.,

Paul Dupont
President and head of operations

Sylvie Grondin, CGA
Vice-president, Corporate Affairs
La Financière agricole du Québec

Québec, May 10, 2004

CAPITAL FINANCIÈRE AGRICOLE INC.

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Capital Financière agricole inc. as at March 31, 2004, the statement of revenue and expenditure and deficit as well as the cash flow statement for the year then ended. These financial statements are the responsibility of Corporation management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Corporation's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 10, 2004

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC
(R.S.Q., c. C-8.1)

INCOME AND DEFICIT
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Projects		
Research and development	\$16 902 886	\$15 526 177
Services	16 005 356	15 566 332
Other revenue	<u>804 421</u>	<u>971 279</u>
	<u>33 712 663</u>	<u>32 063 788</u>
EXPENDITURE		
Salaries and fringe benefits	20 920 532	21 052 940
Direct project costs	5 992 070	6 597 756
Building occupancy expenses	3 082 073	2 844 213
Operating expenses	2 406 586	3 048 140
Severance pay	1 059 205	1 473 980
Bank interest	688 898	519 389
Depreciation of fixed assets	<u>2 181 460</u>	<u>2 103 864</u>
	<u>36 330 824</u>	<u>37 640 282</u>
LOSS BEFORE THE FOLLOWING ITEMS	(2 618 161)	(5 576 494)
Marketing loss (Note 6)	(9 150 196)	
Share in the satellite corporation's performance (Note 6)	(912 051)	(1 430 880)
Gouvernement du Québec contribution (Note 12)	<u>3 200 000</u>	<u>5 771 337</u>
NET LOSS	(9 480 408)	(1 236 037)
DEFICIT, BEGINNING OF YEAR	<u>(7 007 374)</u>	<u>(5 771 337)</u>
DEFICIT, END OF YEAR	<u>\$(16 487 782)</u>	<u>\$(7 007 374)</u>

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

BALANCE SHEET
as at March 31, 2004

	2004	2003
ASSETS		
Current assets		
Accounts receivable (Note 3)	\$14 721 922	\$12 079 874
Projects in progress	2 606 465	3 250 365
Prepaid expenses	379 444	365 038
Inventory (Note 4)	1 120 013	1 087 697
	<u>18 827 844</u>	<u>16 782 974</u>
Long-term assets		
Long-term receivables (Note 5)	528 874	775 213
Investments (Note 6)	85 633	7 335 581
Fixed assets (Note 7)	18 277 640	18 561 075
	<u>18 892 147</u>	<u>26 671 869</u>
	<u>\$37 719 991</u>	<u>\$43 454 843</u>
LIABILITIES		
Current liabilities		
Bank overdraft	\$9 228 269	\$7 353 143
Bank loan (Note 8)	3 895 880	3 882 000
Accounts payable and accruals (Note 9)	7 774 502	7 876 176
Deferred revenue	956 052	750 623
Instalment on long-term debt (Note 10)	6 126 600	5 893 780
	<u>27 981 303</u>	<u>25 755 722</u>
Long-term liabilities		
Long-term debt (Note 10)	963 997	232 355
Deferred credits (Note 7)	788 333	
	<u>1 752 330</u>	<u>232 355</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 11)	24 474 140	24 474 140
Deficit	(16 487 782)	(7 007 374)
	<u>7 986 358</u>	<u>17 466 766</u>
	<u>\$37 719 991</u>	<u>\$43 454 843</u>

On behalf of the Board of Directors,
André Bazergui
Serge Guérin

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

CASH FLOWS
for the year ended March 31, 2004

	2004	2003
OPERATING ACTIVITIES		
Net loss	\$(9 480 408)	\$(1 236 037)
Adjustments for:		
Depreciation of fixed assets	2 181 460	2 103 864
Loss on disposal of fixed assets	19 269	55 295
Gain on disposal of investments		(52 648)
Drop in value of other investments	2 533 756	
Share in performance of satellite corporation		
Share in operating results	912 051	1 430 880
Share in drop in value of assets	3 889 774	
Interest capitalized in advance by the Ministère des Finances	231 577	219 486
Change in non-cash elements linked to operations (Note 13)	(1 099 558)	(4 798 008)
Cash flows used for operating activities	(812 079)	(2 277 168)
INVESTMENT ACTIVITIES		
Reimbursement of advances on wages to employees	66 538	61 356
Long-term receivables	175 000	(26 840)
Repayment of loans to employees	23 244	36 205
Acquisition of investments	(85 633)	(279 000)
Proceeds from disposal of investments		280 867
Acquisition of fixed assets	(1 989 420)	(2 046 481)
Proceeds from disposal of fixed assets	459	5 185
Cash flows used for investment activities	(1 809 812)	(1 968 708)
FINANCING ACTIVITIES		
Note payable to Fonds de financement	745 775	200 000
Bank loan	13 880	(26 920)
Repayment of long-term debt	(12 890)	(11 754)
Cash flows provided by financing activities	746 765	161 326
VARIATION OF BANK OVERDRAFT	(1 875 126)	(4 084 550)
BANK OVERDRAFT, BEGINNING OF YEAR	(7 353 143)	(3 268 593)
BANK OVERDRAFT, END OF YEAR	\$(9 228 269)	\$(7 353 143)

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBECNOTES TO FINANCIAL STATEMENTS
March 31, 2004**1. CONSTITUTION AND PURPOSE**

The purpose of the Centre de recherche industrielle du Québec, a legal person established in the public interest and constituted under the Act respecting the Centre de recherche industrielle du Québec (R.S.Q., c. 8.1), is to design, develop and test industrial equipment, products and processes; operate, alone or in partnership, the equipment, products and processes it develops or for which it owns the rights; collect and disseminate technological and industrial data and information; and carry out standardization and certification activities. The Centre's actions fall under State operations and are attributed to the Minister of Finance.

2. ACCOUNTING POLICIES

The Centre's financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Projects in progress

Projects in progress are accounted for according to the percentage-of-completion method established based on actual billed labour and purchases charged to contracts in relation to the total estimated labour and purchases. Where the estimated total cost exceeds the recoverable amount, the surplus is recorded as a loss during the year.

Inventory

Inventory has been recorded at the lesser of cost and net realizable value. The cost was calculated using the first in, first out method.

Investments

The Centre records its investments at equity value when its participation in an issuing corporation's voting shares allow it to exercise notable influence on this satellite corporation's financial and administrative decisions.

Other investments are recorded at acquisition cost. Any lasting drop in value is deducted from the book value of the investments.

Fixed assets

Fixed assets are recorded at cost.

The building erected on a plot of land belonging to the Communauté urbaine de Québec is depreciated according to the straight-line method over the 38-year period during which the Centre has a right to use this land. Other fixed assets are depreciated using the diminishing balance method at the following rates:

Buildings and land improvement	5% and 8%
Furniture and equipment	15%, 20% and 40%
Data processing equipment and software	25% and 30%
Automotive equipment	30%

Intangible assets are depreciated according to the straight-line method over an 8-year period.

Equipment purchased for the Centre's research and development projects is not capitalized but charged to the cost of the project concerned and billed to clients.

Deferred revenue

Deferred revenue consists of amounts billed for services not rendered and of clients' deposits collected in advance, in accordance with contract agreements.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**2. ACCOUNTING POLICIES (cont'd)****Deferred credits**

Subsidies related to fixed assets are deferred and amortized at the same rate as the fixed assets they finance.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Centre lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

Cash and cash equivalents consist of bank balances including bank overdrafts whose balances often vary between overdrawn and available.

3. ACCOUNTS RECEIVABLE

	2004	2003
Clients	\$2 697 239	\$3 692 527
Ministère du Développement économique et régional et de la Recherche		
Industry and Commerce sector	1 333 200	666 300
Scientific research and technology sector	9 200 000	7 329 977
Subsidy receivable	860 000	
VAT receivable	626 738	367 882
Loans to employees	4 745	23 188
	<u>\$14 721 922</u>	<u>\$12 079 874</u>

The claim for value-added tax (VAT) receivable must be examined and approved by French fiscal authorities. Consequently, the amounts granted may differ from those entered in the books.

4. INVENTORY

	2004	2003
Parts and supplies	\$201 506	\$243 312
Products	918 507	844 385
	<u>\$1 120 013</u>	<u>\$1 087 697</u>

5. LONG-TERM RECEIVABLES

	2004	2003
Loans to employees *	\$4 745	\$27 989
Other receivables		75 000
Instrument receivable from satellite corporation		100 000
Advance on wages to employees **	528 874	595 412
	533 619	798 401
Short-term portion	(4 745)	(23 188)
	<u>\$528 874</u>	<u>\$775 213</u>

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**5. LONG-TERM RECEIVABLES (cont'd)**

- * This amount represents interest-free loans repayable over three years for the purchase of computers under a program approved by the Centre's Board of Directors.
- ** An advance equal to two weeks' pay was granted all employees to enable the Centre to defer pay day by two weeks. This advance bears no interest and is repayable on each employee's departure.

6. INVESTMENTS

	<u>2004</u>	<u>2003</u>
Investment in a satellite corporation:		
500 000 class "B" shares in Intellium Technologies inc., voting (participation of 50%) and participating (471 510 shares in 2003)	\$5 000 000	\$4 715 100
Share in the corporation's performance	<u>(2 664 419)</u>	<u>(1 233 539)</u>
	2 335 581	3 481 561
500 000 class "C" shares in Intellium Technologies inc., non-voting or participating, redeemable	<u>5 000 000</u>	<u>5 000 000</u>
Opening balance	7 335 581	8 481 561
Share acquisition (28 490 class "B" shares)		284 900
Share in fiscal year's results	(912 051)	(1 430 880)
Share in investment reassessment	<u>(3 889 774)</u>	
	2 533 756	7 335 581
Investment reassessment	<u>(2 533 756)</u>	
		7 335 581
Other investments	<u>85 633</u>	
	<u>\$85 633</u>	<u>\$7 335 581</u>

The satellite corporation Intellium Technologies inc. (Intellium) significantly cut back its operations during the fiscal year ended March 31, 2004 due to problems experienced by its satellite corporations and to its unsuccessful efforts to obtain the financing required to pursue its upgrading activities.

The Centre suffered a loss from the reassessment of its investment in Intellium and from the recording of the expenses resulting from its cutting back its activities. This loss appears in the statement of results under the item "Marketing loss" and totals \$9 150 196, breaking down as follows:

Reassessment of investment in Intellium Technologies inc.	\$2 533 756
Share of loss in investment reassessment appearing in the results of Intellium Technologies inc.	3 889 774
Receivables and marketing loss	<u>2 726 666</u>
	<u>\$9 150 196</u>

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**7. FIXED ASSETS**

	2004		2003
	Cost	Accumulated Depreciation	Net value
Tangible assets			
Land *	\$1 239 436		\$1 239 436
Building *	20 748 513	\$12 679 413	8 069 100
Furniture and equipment **	20 533 148	15 140 908	5 392 240
Data processing equipment and software	10 684 738	9 007 237	1 677 501
Automobile equipment	237 786	170 875	66 911
	<u>53 443 621</u>	<u>36 998 433</u>	<u>16 445 188</u>
Intangible assets	<u>2 883 275</u>	<u>1 050 823</u>	<u>1 832 452</u>
	<u>\$56 326 896</u>	<u>\$38 049 256</u>	<u>\$18 277 640</u>
			<u>\$18 561 075</u>

* The Centre acquired the right to use a piece of land belonging to the Communauté urbaine de Québec. A building, with a net book value of \$809 510 as at March 31, 2004 (2003: \$839 090) will be transferred to the CUQ at no cost on July 24, 2030.

** Under the government infrastructures funding assistance program (PAFI), the Centre had a test bank built for a total cost of \$964 272 at March 31, 2004. A deferred credit estimated at \$860 000 was recorded in the books at March 31, 2004 for the contribution that the Centre thought it would receive under this program. This credit was amortized at \$71 667, the same rate as the test bank, thereby bringing its net value to \$788 333.

8. BANK LOAN

This bank loan, of a maximum authorized amount of \$4 million, bears interest at a fixed rate of 2.68% until January 6, 2005. Interest paid during the fiscal year totals \$127 096 (2003: \$109 202).

9. ACCOUNTS PAYABLE AND ACCRUALS

	2004	2003
Suppliers and other accrued liabilities	\$2 596 074	\$2 632 281
Salaries and fringe benefits	2 626 380	2 628 351
Provision for vacation time	2 178 503	2 099 964
Severance pay	<u>373 545</u>	<u>515 580</u>
	<u>\$7 774 502</u>	<u>\$7 876 176</u>

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**10. LONG-TERM DEBT**

	<u>2004</u>	<u>2003</u>
Advance from the Ministère des Finances	\$6 112 467	\$5 880 890
Note payable to the Ministère des Finances, fixed rate of 2.20%, with defined repayment terms, maturing April 30, 2004	945 775	200 000
Fixed-rate borrowing, 9.25%, repayable in 60 monthly payments of \$1 378, maturing in May 2006	<u>32 355</u>	<u>45 245</u>
	7 090 597	6 126 135
Portion maturing within one year	<u>(6 126 600)</u>	<u>(5 893 780)</u>
	<u>\$963 997</u>	<u>\$232 355</u>

The advance from the Ministère des Finances, bearing interest at the National Bank of Canada's prime rate, is repayable in its entirety when it comes due on March 31, 2005. Interest is payable at the rate of cash in from dividends paid by the satellite corporation and no later than the advance's due date.

The note payable to the Ministère des Finances will be converted into a long-term debt at maturity, at the terms and conditions defined by the Ministère des Finances at that time.

The capital payments to be made on the long-term debt over the next three fiscal years break down as follows:

2005	\$6 126 600
2006	15 497
2007	2 725

11. CAPITAL STOCK

	<u>2004</u>	<u>2003</u>
Authorized 650 000 shares with a par value of \$100 each		
Issued and fully paid 244 741 shares	<u>\$24 474 140</u>	<u>\$24 474 140</u>

12. CONTRIBUTION DU GOUVERNEMENT DU QUÉBEC

By its Order-in-Council of March 24, 2004, the Québec government authorized the Ministère du Développement économique et régional et de la Recherche to pay the Centre \$3 200 000 to reduce its loss for the current fiscal year. The \$3 200 00 was recorded in the fiscal year's results as a Gouvernement du Québec contribution.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

13. CASH FLOWS

Changes in the non-cash elements linked to operations are as follows:

	2004	2003
Change in:		
Debtors	\$(1 800 491)	\$(5 698 981)
Projects in progress	643 900	735 318
Inventory	(32 316)	551 605
Prepaid expenses	(14 406)	(21 099)
Accounts payable and accruals	(101 674)	743 207
Deferred revenue	205 429	(1 108 058)
	<u>\$(1 099 558)</u>	<u>\$(4 798 008)</u>

During the fiscal year, fixed assets were acquired for a total cost of \$1 989 420 (2003: \$2 046 481).

Interest paid during the fiscal year amounted to \$442 457 (2003: \$284 402).

14. PENSION PLANS

The employees of the Centre participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) and Pension Plan of Management Personnel (PPMP). These are defined-benefit plans and include guaranteed payments on retirement and death.

The Centre's contributions charged to the year-end statement amount to \$672 036 (2003: \$693 213). The Centre's liability towards these Government plans is restricted to its contributions as an employer.

15. RELATED PARTY TRANSACTIONS

During the fiscal year, the Centre performed the following transactions with:

	2004	2003
Ministère des Finances:		
Loan	\$725 000	\$200 000
Capitalized interest	252 352	219 486
Ministère du Développement économique et régional et de la Recherche		
Industry and Commerce sector		
Accounts receivable	1 333 200	666 300
Completed projects	8 000 000	8 000 000
Science and Technology sector		
Accounts receivable	9 200 000	7 329 977
Completed projects	12 000 000	9 928 661

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**15. RELATED PARTY TRANSACTIONS**

	2004	2003
Intellium Technologie inc.		
Debtors	\$210 860	\$12 791
Work in progress		51 306
Investments		279 000
Project revenue	263 038	549 766

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Centre is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Centre did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

16. FINANCIAL INSTRUMENTS**Fair value**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future. The following table shows the book value and fair value of the Corporation's long-term financial instruments:

	2004		2003	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Long-term receivables	\$533 619		\$798 401	
Long-term investments	85 633		7 335 581	
	<u>\$619 252</u> ¹		<u>\$8 133 982</u> ¹	
Long-term debts (including short-term portion)	<u>\$7 090 597</u>	<u>\$6 645 891</u>	<u>\$6 126 135</u>	<u>\$6 095 622</u>

¹ The fair value of these financial instruments cannot reasonably be estimated given that lack of a market for this type of assets.

Credit risk

The Centre's credit risk exposure corresponds to the accounting value of the financial assets. The credit risk related to these assets is not concentrated in a single sector of activity. The Centre conducts an ongoing assessment of these assets and posts a provision for losses when accounts are deemed uncollectable.

17. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Centre de recherche industrielle du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Centre de recherche industrielle du Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the way in which management fulfils its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee.

The Auditor General of Québec has audited the Centre's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Serge Guérin
President and Chief Executive Officer

Lionel Vézina
Vice-President, Finance and Administration

Québec, June 2, 2004

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of the Centre de recherche industrielle du Québec as at March 31, 2004, the statement of income and deficit and the cash flow statement for the year then ended. These financial statements are the responsibility of the Centre's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Centre's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 2, 2004

COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION
(R.S.Q., c. R-20)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Contributions (Note 3)		
Ministère de l'Emploi, de la Solidarité sociale et de la Famille	\$33 000	\$30 000
Commission de la construction du Québec	985 200	895 600
Corporation des maîtres mécaniciens en tuyauterie du Québec	33 000	30 000
Régie du bâtiment du Québec	33 000	30 000
Ministère du Travail	100 000	100 000
Corporation des maîtres électriciens du Québec	33 000	30 000
Sale of goods and services	3 124	3 813
	<u>1 220 324</u>	<u>1 119 413</u>
EXPENDITURE		
Administrative expenses (Note 4)	<u>1 199 106</u>	<u>1 175 881</u>
EXCESS REVENUE OVER EXPENDITURE	21 218	(56 468)
SURPLUS, BEGINNING OF YEAR	<u>201 314</u>	<u>257 782</u>
SURPLUS, END OF YEAR	<u>\$222 532</u>	<u>\$201 314</u>

COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

BALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$600	\$600
Accounts receivable	3 089	2 937
Advances to the Consolidated Revenue Fund, interest-free	<u>287 734</u>	<u>384 153</u>
	291 423	387 690
Fixed assets (Note 5)	<u>252 623</u>	<u>316 246</u>
	<u><u>\$544 046</u></u>	<u><u>\$703 936</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$39 638	\$228 046
Provision for sick leave and vacation time (Note 7)	281 876	274 576
SURPLUS	<u>222 532</u>	<u>201 314</u>
	<u><u>\$544 046</u></u>	<u><u>\$703 936</u></u>

Josette Béliveau
Commissaire de l'industrie de la construction

COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

The Commissaire de l'industrie de la construction, constituted by the Act respecting labour relations, vocational training and manpower management in the construction industry (R.S.Q., c. R-20), is mandated, at the request of any interested party, to hear and settle conflicts regarding qualifications related to the practice of a trade or an occupation. Any problem of interpretation or enforcement of section 19 of the regulations adopted under section 20 of the Act constituting the Commissaire de l'industrie de la construction must be referred to it. It also rules on recourses formulated under section 164.1 of the Building Act (R.S.Q., c. B-1.1), section 41.1 of the Act respecting manpower vocational training and qualification (R.S.Q., c. F-5) and section 35.2 of the Act respecting electrical installations (R.S.Q., c. I-13.01).

2. ACCOUNTING POLICIES

The financial statements of the Commissaire were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of changes in financial position is not shown as it would not provide any useful additional information regarding the Commissaire's cash flows during the year.

Fixed assets

Fixed assets are recorded at cost and depreciated over their estimated service life using the straight-line method at the following rates:

	Rate
Leasehold improvements	10%
Office automation and data processing equipment	20% and 33⅓%
Computer systems	20%

Pension plans

The accounting procedure used for defined-contribution plans is applied to interentreprise government defined-benefit plans, given that the Commissaire lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. CONTRIBUTIONS

Commissaire de l'industrie de la construction financing comprises the following amounts:

- the amounts paid by the Minister of Labour and taken from the appropriations allocated annually for this purpose by the National Assembly;
- the amounts paid by the Commission de la construction du Québec, the Régie du bâtiment du Québec, the Minister of Employment, of Social Solidarity and the Family and a mandatory corporation contemplated in section 129.3 of the Building Act (chapter B), the amount and conditions of payment of which are determined, for each, by the Government;
- the amounts collected from applying the tariffs on fees, honoraria and other business-related expenses incurred by the Commissaire de l'industrie de la construction, for cases tried before it and requests addressed to it.

COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

4. ADMINISTRATIVE EXPENSES

	2004	2003
Salaries and fringe benefits	\$755 054	\$750 250
Transport and communications	50 046	48 127
Professional and administrative services	127 817	129 423
Maintenance and repairs	35 651	50 075
Rent	129 833	110 388
Materials and supplies	9 896	11 682
Equipment	14 037	9 097
Other expenses		2 300
Depreciation of fixed assets	76 772	64 539
	<u>\$1 199 106</u>	<u>\$1 175 881</u>

5. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net
Leasehold improvements	\$134 320	\$14 400	\$119 920
Office automation and data processing equipment	40 387	24 521	15 866
Computer systems (being developed)	292 093	175 256	116 837
	<u>\$466 800</u>	<u>\$214 177</u>	<u>\$252 623</u>
			<u>\$316 246</u>

Disbursement related to acquisitions for the fiscal year totalled \$13 149 (2003: \$138 591).

6. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Commissaire is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Commissaire de l'industrie de la construction did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

7. FUTURE BENEFITS PAYMENTS**Pension plans**

The staff members of the Commissaire de l'industrie de la construction participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (RRPE). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Commissaire's contributions charged to the year-end statement amount to \$22 789 (2003: \$21 944). The liability of the Commissaire towards these Government plans is restricted to its contributions as an employer.

COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

7. FUTURE BENEFITS PAYMENTS (cont'd)

Provision for sick leave and vacation time

	2004			2003
	Sick leave	Vacation time	Total	Total
Opening balance	\$188 786	\$85 790	\$274 576	\$250 267
Charge for the year	18 919	60 617	79 536	83 989
Benefits paid during the year	(7 429)	(64 807)	(72 236)	(59 680)
Closing balance	<u>\$200 276</u>	<u>\$81 600</u>	<u>\$281 876</u>	<u>\$274 576</u>

8. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

MANAGEMENT'S REPORT

The financial statements of the Commissaire de l'industrie de la construction were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Commissaire recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Commissaire's financial statements in accordance with auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Josette Béliveau
Commissaire de l'industrie de la construction

Québec, June 16, 2004

COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Commissaire de l'industrie de la construction as at March 31, 2004 and the statement of revenue and expenditure and surplus for the year then ended. These financial statements are the responsibility of the Commissaire's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these policies were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 16, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. R-10)
GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NET ASSETS AVAILABLE FOR BENEFITS
as at December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)		
Employee contributions fund	30 608 751	26 815 049
Employer contributions fund	1 254	(1 668)
Supplemental pension plans fund	<u>387 764</u>	<u>353 081</u>
	30 997 769	27 166 462
Accounts receivable		
Employee contributions	92 670	61 195
Employer contributions	3 516	3 223
Amounts receivable from the Gouvernement du Québec	105 349	31 761
Amounts receivable – transfers	<u>4 087</u>	<u>2 233</u>
	205 622	98 412
Cash on hand	<u>3 642</u>	<u>5 297</u>
	<u>31 207 033</u>	<u>27 270 171</u>
LIABILITIES		
Contribution refunds and pensions payable	13 023	22 264
Excess employee contributions to be refunded	27 646	29 133
Administrative expenses payable	5 861	5 655
Owed to the Gouvernement du Québec - current account	<u>3 949</u>	<u>5 392</u>
	<u>50 479</u>	<u>62 444</u>
NET ASSETS AVAILABLE FOR BENEFITS (Notes 6 and 8)	<u><u>31 156 554</u></u>	<u><u>27 207 727</u></u>

GOVERNMENT COMMITMENTS VIS-À-VIS THE PLAN (Note 7)

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN****CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

for the year ended December 31, 2003

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
INCREASE IN ASSETS		
Employee contributions, including contributions for past service	660 741	586 856
Contributions of independent employers	72 169	54 558
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	1 246 198	1 267 380
Change in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	2 729 266	
Interest income	1 453	1 323
	<u>4 709 827</u>	<u>1 910 117</u>
Amounts received or receivable from the Gouvernement du Québec		
Regular service	762 744	627 832
Transferred service	162 912	155 540
	<u>925 656</u>	<u>783 372</u>
	<u>5 635 483</u>	<u>2 693 489</u>
DECREASE IN NET ASSETS		
Benefits paid		
General plan		
Pensions	1 386 339	1 262 635
Contribution refunds, including interest	88 218	90 552
Transfers, including interest	42 139	33 719
Transfer of contributions cumulated by those targeted, including interest to Pension Plan of Management Personnel	116 593	113 909
Supplemental pension plans		
Pensions	18 895	18 350
Contribution refunds, including interest	356	607
Transfers, including interest	112	307
Administrative expenses	34 004	30 804
Change in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)		3 926 268
	<u>1 686 656</u>	<u>5 477 151</u>
NET INCREASE (DECREASE) FOR THE YEAR	3 948 827	(2 783 662)
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	<u>27 207 727</u>	<u>29 991 389</u>
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	<u>31 156 554</u>	<u>27 207 727</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLAN

The following description of the Government and Public Employees Retirement Plan (RREGOP) is given for information purposes only. For more complete information concerning this plan, please consult the Act respecting the Government and Public Employees Retirement Plan (R.S.Q., c. R-10).

a) General information

The Plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to employees belonging to the civil service, the health and social services and the education sectors since July 1, 1973.

The pensions and benefits described below may differ for certain categories of employees designated by the Government.

b) Funding

Benefits for regular service are funded by contributors and the Government and other employers in the following proportions: 5/12 and 7/12 for service prior to July 1, 1982, and equal shares for service after to this date. However, additional benefits resulting from the revaluation of certain years of service entitling employees to pension credits are financed by contributors to a maximum of \$680 million and the remainder is assumed by the Government.

Benefits for service transferred from the Teachers Pension Plan (TPP) and the Civil Service Superannuation Plan (CSSP) are funded by the Government.

Administrative expenses

Expenses related to the administration of this plan are assumed by the plan and divided equally between the employee and employer contribution funds.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at the age of 60, if they have 35 years' pensionable service.

Contributors are entitled to pension benefits without any actuarial reduction at the age of 55.

The pension is obtained by multiplying the average pensionable salary for the five best-paid years by 2% per year of service. It can be added to pension credits acquired under the redemption of past service or the transfer of funds from supplemental pension plans and additional benefits resulting from the revaluations of certain years of service. The pension is reduced beginning at age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Death benefits

If a contributor or a pensioner aged 55 or over dies, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% of such a pension if the deceased had chosen to receive a pension reduced by 2%. In the case where there is no surviving spouse, contributions, plus interest, are refunded to the heirs, minus pension amounts paid, where applicable.

If a contributor dies before the eligible retirement age of 55, the surviving spouse or heirs is or are entitled to the refund of contributions, plus interest, if the deceased had fewer than two years' pensionable service. If the deceased had more than two years' pensionable service, the surviving spouse or assigns is or are entitled to the refund of contributions, plus interest, or to the actuarial value of the deferred indexed pension, whichever is higher.

e) Severance benefits

Persons who cease to contribute to the RREGOP before being eligible to receive an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' pensionable service and are under 55; otherwise they are entitled to a deferred indexed pension payable at age 65, or may request that the total contributions paid into the RREGOP, plus interest, or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLAN (cont'd)**f) Indexation of benefits**

Pension benefits under the RREGOP are fully indexed to the cost of living increase for that portion of the pension which corresponds to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension which corresponds to vested service after June 30, 1982.

2. ACCOUNTING POLICIES

These financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. They include amounts based on best estimates and judgements.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

Year-to-date financial data

These statements combine financial data for the following three funds:

- Employee contributions fund;
- Employer contributions fund;
- Supplemental pension plan fund.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in individual funds of the Caisse de dépôt et placement du Québec are recorded at fair value, which is established on the basis of the market value of units, as determined by the Caisse de dépôt et placement du Québec.

The investments of these individual funds are composed primarily of participating units in individual Caisse de dépôt et placement du Québec portfolios. The net gains on the sale of investments earned by these individual portfolios, which are not distributed to individual funds, are included in the net assets of individual portfolios. These revenues are added to the cost of participation deposits.

3. CAPITALIZATION POLICY

In keeping with section 174 of the Act respecting the Government and Public Employees Retirement Plan, CARRA actuaries must conduct an actuarial valuation of the RREGOP every three years. The goal of this valuation is to determine the employee contribution rate based on the value of the pension fund set up and benefits to be paid out.

This valuation is based on assumptions established by CARRA actuaries and deemed appropriate by the consulting actuary appointed by the retirement committee under the Act. Moreover, the parties have agreed to use the overall attained-age actuarial cost method, free of assets.

The employee contribution and the contribution of independent employers for the fiscal year are established using a rate of 5.35% of the excess eligible earnings over 35% of maximum pensionable earnings within the meaning of the Act respecting the Québec Pension Plan (R.S.Q., c. R-9). The contribution rate was established based on the actuarial valuation conducted using data as at December 31, 1996 and reflects the changes made to the RREGOP since its publication in October 1998. This rate, in 2003, corresponds to 3.58% of the pensionable earnings.

In November 2001, CARRA actuaries submitted an actuarial valuation based using data as at December 31, 1999, thus updating the previous valuation. According to this valuation, the contribution rate could be established at 2.19% as of 2002, or 1.46% of eligible earnings. However, the parties agreed to maintain the current rate of 5.35%.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

3. CAPITALIZATION POLICY (cont'd)

The Act respecting the Government and Public Employees Retirement Plan does not oblige the Government to contribute to a pension fund. However, the Government's commitments to fund regular service are presented in Note 7. They are calculated as the fund it would have created, had its contributions, established on the same bases as those for contributors and according to the above-mentioned actuarial valuation, been deposited in a pension fund.

Employee contributions and the contribution of independent employers are deposited respectively in the employee contributions fund and employer contributions funds with the Caisse de dépôt et placement du Québec.

The amounts needed to pay benefits for regular service performed since July 1, 1982 are also taken from the employee and employer contribution funds. The amounts required for service performed prior to July 1, 1982 are taken in a proportion of 5/12 from the employee contributions fund and 7/12 from the employer contributions fund. When the employer contributions fund with the Caisse de dépôt et placement du Québec is empty, the remaining amounts required to pay the share of benefits assumed by the Government are taken from the Consolidated Revenue Fund, as prescribed in the Act. The same conditions apply to payment of benefits related to pension credits acquired by buy-outs payable to RREGOP and Pension Plan of Management Personnel beneficiaries (PPMP).

The amounts needed to pay the additional benefits resulting from the revaluation of certain years of service entitling contributors to pension credits are taken from the employee contribution fund and the Government commits to paying into this fund the amounts needed to assume the value of benefits exceeding \$680 million.

The amounts needed to pay benefits for pension credits acquired through the transfer of supplemental pension plans for RREGOP and PPMP beneficiaries are taken from the Supplemental Pension Plan Fund in which they had been deposited when the transfers occurred.

The amounts needed to pay all benefits for service transferred from the TPP and the CSSP are taken from the Consolidated Revenue Fund.

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2003				2002
	Employee contributions fund	Employer contributions fund	SPP fund **	Total	Total
Participation deposits in individual funds – at fair value (cost 2003: \$34 540 259; 2002: \$32 795 920) *	30 548 543		387 267	30 935 810	27 071 918
Demand deposits in the General Fund (advances)	16 262	1 254	(61)	17 455	14 140
Revenue receivable from individual funds	43 946		558	44 504	80 404
	<u>30 608 751</u>	<u>1 254</u>	<u>387 764</u>	<u>30 997 769</u>	<u>27 166 462</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)

	2003			2002
	Employee contributions fund	Employer contributions fund	SPP fund **	Total
* Cost of units				29 509 376
Cumulated gains realised but not yet distributed by individual portfolios				5 030 883
				<u>34 540 259</u>
				<u>28 658 300</u>
				<u>4 137 620</u>
				<u>32 795 920</u>

** Supplemental pension plans

5. FINANCIAL INSTRUMENTS

The fair value of accounts payable, cash and liabilities is equal to their book value given that they mature in the near future.

6. ASSETS AVAILABLE FOR BENEFITS

	2003			2002
	Employee contributions	Employer contributions	Total	Total
Regular service	30 424 280	131 109	30 555 389	26 659 454
Transferred service		(11)	(11)	515
Pension credits acquired by buy-outs	214 571		214 571	194 705
Supplemental pension plans	386 605		386 605	353 053
	<u>31 025 456</u>	<u>131 098</u>	<u>31 156 554</u>	<u>27 207 727</u>

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PLAN**Liability recorded in the Government's financial statements**

Since the Government has not created a pension fund for this plan, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with generally recognised accounting policies applicable to the public sector in Canada. Under the Act respecting the Government and Public Employees Retirement Plan, the Government's share corresponds to 58.33% (7/12) of these benefits for years of service prior to July 1, 1982, 50% for years of service as of July 1, 1982 for regular service and 100% for transferred service. The amount recorded corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid.

The pension costs for the RREGOP correspond to the sum of the cost of accrued benefits, changes to this plan during the year and the amortisation of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the projected benefit method prorated on service and the most probable assumptions determined by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PLAN (cont'd)

Change in the liability recorded in the Government's financial statements

	2003	2002
For regular service		
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	18 607 294	17 027 223
Increase		
Pension costs		
Current service	916 906	849 110
Past service	111 471	106 797
Interest	1 327 674	1 263 940
	2 356 051	2 219 847
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	632 725	633 720
Inter-plan transfers for past service	77 810	6 056
	710 535	639 776
Net increase for the year	1 645 516	1 580 071
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	20 252 810	18 607 294
Estimated liability recorded as at December 31	21 772 591	19 973 436
For transferred service		
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	2 268 259	2 259 271
Estimated liability recorded as at December 31	2 296 726	2 289 861

The Financial Administration Act (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (\$50 266 billion as at March 31, 2003). At December 31, 2003, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$11 739 billion, \$5 273 billion of which is slated for the RREGOP.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PLAN (cont'd)

Financing regular service

In keeping with the Act respecting the Government and Public Employees Retirement Plan, CARRA actuaries conduct an actuarial valuation every three years with respect to financing the regular service. In this valuation, the actuaries take legislative provisions and collective agreements into account by using the valuation method the parties agree to and determine the employee and employer contribution rates and the Government contribution. Consequently, from the beginning of the RREGOP, CARRA has presented the Government's commitments to financing regular service as the fund it would have created, had these contributions, established on the same bases as those used to determine the employee fund, been deposited in a pension fund. However, the Act does not oblige the Government to contribute to the RREGOP. The fair value of this fund was estimated at \$32 165 billion as at December 31, 2003.

However, in its consolidated financial statements for the year ended as at March 31, 2003, the Government does not recognize having commitments to the plan on the basis of sharing the annual contribution for financing. According to its interpretation of the legislative provisions of the RREGOP, the Government's commitment vis-à-vis regular service must be determined based on the value of the benefits promised, for which it is responsible, in keeping with the recommendations of the Canadian Institute of Chartered Accountants. Consequently, since March 31, 1998, the pre-recorded contribution representing the difference between the fund the Government would have created, had it paid its contributions and the liability recorded in the Government's financial statements is no longer presented in the notes to the financial statements. However, these notes contain information concerning the various actuarial valuations. The auditor general of Québec issued a restriction in his report, to the effect that the Government does not clearly acknowledge having made commitments to finance the plan, while recognizing that its financial statements correctly present the liability, net debt and surplus for the fiscal year ended on March 31, 2003.

For the year, the Government's contribution for regular service corresponds to 3.12% of the pensionable earnings of unionizable contributors. This contribution was established based on the actuarial valuation conducted on the basis of data as at December 31, 1996 and published in October 1998 and reflects the changes made to the RREGOP since its publication. For pension credits acquired by buy-outs, the Government contribution corresponds to 140% of that of employees.

In November 2001, CARRA actuaries submitted an actuarial valuation using data as at December 31, 1999, thereby updating the previous valuation. According to this valuation, the Government contribution could be 0.90% of eligible earnings. Because the parties agreed to maintain the employee contribution rate at 5.35%, it is taken for granted that the Government contribution is also maintained at its current level of 3.12%.

The interest credited to this fund and the unrealized loss are calculated based on the annual rate of return of the funds of the RREGOP, including the gains made but not yet distributed by the specialized portfolios, entrusted to the Caisse de dépôt et placement du Québec.

Change in the fund the Government would have created (at fair value)

	2003	2002
Opening balance	28 303 762	31 404 293
Increase		
Gouvernement du Québec contributions	541 858	480 172
Interest	1 941 051	(858 229)
Unrealized gain	2 199 429	
	32 986 100	31 026 236
Decrease		
Payments received – benefits and administrative expenses paid by the Gouvernement du Québec	693 036	626 124
Inter-plan transfers for past service	128 441	127 148
Unrealized loss		1 969 202
Closing balance	32 164 623	28 303 762

The equivalent cost value was \$36 181 711 000 at December 31, 2003 (\$34 520 279 000 at December 31, 2002).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

8. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the RREGOP administrator. These obligations represent the value of benefits attributable to the accumulated years of service at the date of valuation.

The assumptions used by CARRA are those deemed probable by its actuaries in the actuarial valuation prepared using data as at December 31, 1999 and presented to the retirement committee on November 7, 2001. The short-term economic assumptions reflect the data known when the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$32 910 583 000 at December 31, 1999 for regular service, additional benefits and pension credits acquired by buy-out, and at \$2 497 502 110 at December 31, 2000 for years of service transferred from the TPP, CSSP and pension credits granted certain retirees of the health and social services network and at \$301 464 000 at December 31, 2001 for supplemental pension plans and estimated it at \$48 811 939 000 at December 31, 2003.

	2003			2002
	Employees	Employers	Total	Total
Regular service	22 554 519	23 046 198	45 600 717	42 122 971
Transferred service		2 525 195	2 525 195	2 528 282
Pension credits acquired by buy-out	158 812	222 338	381 150	377 824
Supplemental pension plans	304 877		304 877	327 623
	<u>23 018 208</u>	<u>25 793 731</u>	<u>48 811 939</u>	<u>45 356 700</u>

The obligations related to benefits for regular service include \$847 749 000 (\$758 711 000 at December 31, 2002) for additional benefits.

Change in accrued pension obligations

	2003	2002
Actuarial present value of accrued pension benefits		
- beginning of year	<u>45 356 700</u>	<u>42 089 409</u>
Increase		
Actuarial loss		91 590
Changes in actuarial assumptions	2 767	
Interest	3 083 503	2 864 037
Benefits accrued	<u>2 104 482</u>	<u>1 894 487</u>
	<u>5 190 752</u>	<u>4 850 114</u>
Decrease		
Actuarial gain	28 229	
Changes in actuarial assumptions		19 661
Corrections to participant data		23 267
Benefits paid	1 532 488	1 400 625
Inter-plan transfers	<u>174 796</u>	<u>139 270</u>
	<u>1 735 513</u>	<u>1 582 823</u>
Net increase for the year	<u>3 455 239</u>	<u>3 267 291</u>
Actuarial present value of accrued pension benefits		
- end of year	<u>48 811 939</u>	<u>45 356 700</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

8. PENSION OBLIGATIONS (cont'd)**Significant economic assumptions**

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Valuation for accounting purpose	Valuation for funding purpose
Inflation	4.00 %	2.75 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	0.60

Medium-term rates represent the average rates for the period 2000 to 2010 while long-term rates represent rates used as of 2011.

Employee obligations for capitalization purposes

Employee contributions paid into the pension fund to finance the benefits for which they are responsible are determined using different actuarial methods and assumptions than those required according to generally accepted accounting principles in Canada for presenting the actuarial obligation in the financial statements.

In fact, since the creation of the RREGOP, the method used by parties of interest to determine employee contribution rates is the overall attained-age actuarial cost method, free of assets. According to this method, employee contributions are adjusted based on the assets created so as to ensure future payment of the portion of the benefits for which they are responsible, both for service up to the date of valuation and service after this date by contributors who were employed on the date of valuation. Consequently, the value of actuarial obligations corresponds to the value of the assets created and there can be no deficit or surplus assets.

For capitalization purposes, the value of actuarial obligations for which contributors are responsible with respect to regular service was \$29 053 382 000 as at December 31, 1999 and \$30 424 280 000 as at December 31, 2003, which corresponds to the market value of the employee fund as at each of these dates.

9. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2003			2002
	Employee contributions fund	Employer contributions fund	SPP fund *	Total
Net investment income from individual funds	1 230 294		15 866	1 246 160
Interest on demand deposits in the General Fund	194	(169)	13	38
	<u>1 230 488</u>	<u>(169)</u>	<u>15 879</u>	<u>1 246 198</u>
Change in fair value				
Losses from the sale of investments	(285 778)		(3 906)	(289 684)
Gains (losses) realized in the individual portfolios	888 080		11 316	(2 060 975)
Unrealized gains (losses)	<u>2 089 928</u>		<u>29 626</u>	<u>(1 837 560)</u>
	<u>2 692 230</u>		<u>37 036</u>	<u>(3 926 268)</u>

* Supplemental pension plans.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Government and Public Employees Retirement Plan regarding regular service according to contributors' profiles as at December 31, 1999 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$32 084 118 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 1999, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Denis Leclerc, FICA, FSA
Director, Actuarial Service and Development

André Simard, FICA, FSA
Actuary

Daniel Cantin, FICA, FSA
Actuary

Québec, March 22, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Government and Public Employees Retirement Plan regarding the actuarial value of additional benefits resulting from the revaluation of certain years of service acquired at December 31, 1999. This estimate was carried out according to contributors' profiles as at December 31, 1999 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. It reveals that, at that date, this value was \$476 563 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 1999, CARRIED OUT FOR ADDITIONAL BENEFITS RESULTING FROM THE REVALUATION OF CERTAIN YEARS OF SERVICE AND FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, June 19, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits acquired by buy-out for past service according to contributors' profiles as at December 31, 1999 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$349 902 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 1999, CARRIED OUT FOR PENSION CREDITS ACQUIRED BY BUY-OUT OF PAST SERVICE AND FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Denis Leclerc, FICA, FSA
Director, Actuarial Service and Development

Jean Dessureault, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, March 28, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Government and Public Employees Retirement Plan regarding years of service transferred from the Teachers Pension Plan and the Civil Service Superannuation Plan according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$2 496 002 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2000, CARRIED OUT FOR YEARS OF SERVICE TRANSFERRED FROM THE CIVIL SERVICE SUPERANNUATION PLAN AND THE TEACHERS PENSION PLAN AND FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, January 8, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits awarded certain retired social affairs sector employees according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$1 500 110.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2000, CARRIED OUT FOR PENSION CREDITS AWARDED CERTAIN RETIRED SOCIAL AFFAIRS SECTOR EMPLOYEES AND FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Québec, January 14, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits acquired following the transfer of the supplemental pension plans to the Plan according to contributors' profiles as at December 31, 2001 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$301 464 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR PENSION CREDITS ACQUIRED FOLLOWING THE TRANSFER OF THE SUPPLEMENTAL PENSION PLANS TO THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AS AT DECEMBER 31, 2001

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, March 4, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of net assets available for benefits of the Government and Public Employees Retirement Plan as at December 31, 2003 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2002, and the changes in this position for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 16, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. R-10)

PENSION PLANS OF MANAGEMENT PERSONNEL

(S.Q., 2001, c.31)

NET ASSETS AVAILABLE FOR BENEFITS

as at December 31, 2003

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)		
Employee contributions fund	4 925 539	4 203 202
Employer contributions fund	<u>26</u>	<u>6 247</u>
	4 925 565	4 209 449
Accounts receivable		
Employee contributions	9 836	5 698
Employer contributions	523	508
Amounts receivable from the Gouvernement du Québec	53 572	47 577
Amounts receivable – transfers	<u>1 110</u>	<u>648</u>
	65 041	54 431
Cash on hand	<u>1 901</u>	<u>445</u>
	4 992 507	4 264 325
LIABILITIES		
Contribution refunds and pensions payable	5 623	6 591
Excess employee contributions to be refunded	1 724	1 998
Administrative expenses payable	<u>700</u>	<u>714</u>
	8 047	9 303
NET ASSETS AVAILABLE FOR BENEFITS (Notes 6 and 8)	<u><u>4 984 460</u></u>	<u><u>4 255 022</u></u>

GOVERNMENT COMMITMENTS VIS-À-VIS THE PLAN (Note 7)

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended December 31, 2003
(in thousands of dollars)

	2003	2002
INCREASE IN NET ASSETS		
Employee contributions, including contributions for past service	77 039	66 751
Transfer of contributions cumulated by those targeted from the Government and Public Employees Retirement Plan, including interest	116 593	113 909
Contributions of independent employers	13 018	10 569
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	196 367	194 274
Change in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	441 236	
Interest income	133	78
	<u>844 386</u>	<u>385 581</u>
Amounts received or receivable from the Gouvernement du Québec		
Regular service	186 965	180 303
Transferred service	63 186	47 004
Regular service – Senior officials	23 438	18 172
	<u>273 589</u>	<u>245 479</u>
	<u>1 117 975</u>	<u>631 060</u>
(DECREASE) INCREASE IN NET ASSETS		
Benefits paid		
Pensions (Note 10)	340 873	285 726
Contribution refunds, including interest	11 214	9 471
Transfers, including interest	13 724	12 592
Administrative expenses	3 801	3 040
Change in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)		636 781
	<u>369 612</u>	<u>947 610</u>
Amounts deposited in the Consolidated Revenue Fund (Note 3)	18 925	20 606
	<u>388 537</u>	<u>968 216</u>
NET INCREASE (DECREASE) FOR THE YEAR	729 438	(337 156)
NET ASSETS AVAILABLE FOR BENEFITS		
– BEGINNING OF YEAR	<u>4 255 022</u>	<u>4 592 178</u>
NET ASSETS AVAILABLE FOR BENEFITS		
– END OF YEAR	<u>4 984 460</u>	<u>4 255 022</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Pension Plan of Management Personnel

The following description of the Pension Plan of Management Personnel (PPMP) is given for information purposes only. For more complete information concerning this plan, please consult the Act respecting the Pension Plan of Management Personnel (R.S.Q., chapter 12.1).

a) General information

The PPMP is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to ununionizable public and parapublic sector employees appointed or hired on or after January 1, 2001.

The PPMP also applies to ununionizable public and parapublic sector employees appointed or hired before January 1, 2001 who contributed to the Government and Public Employees Retirement Plan (RREGOP) at December 31, 2000.

The pensions and benefits described below may differ for certain classes of employees determined by the Government, including senior officials.

b) Funding

Benefits for regular service are funded by contributors and the Government and other employers in the following proportions: 5/12 and 7/12 for service prior to July 1, 1982, and equal shares for service after to this date. However, additional benefits resulting from the revaluation of certain years of service entitling employees to pension credits are financed by contributors to a maximum of \$172 million and the remainder is assumed by the Government.

For senior officials, benefits are funded by participants and self-employed employers according to the contribution rates set by law and by the Government, which assumes the balance of obligations related to benefits.

Benefits for service transferred from the Teachers Pension Plan (TPP) and the Civil Service Superannuation Plan (CSSP) are funded by the Government.

Administrative expenses

Expenses related to the administration of the PPMP are assumed by the plan and are divided equally between the employee and employer contribution funds.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at age 60, if they have 35 years' pensionable service, or if they are 55 and their age and years of service total 88.

Contributors are entitled to pension benefits without any actuarial reduction at the age of 55.

The pension is obtained by multiplying the average pensionable salary for the three best-paid years by 2% per year of service. It can be added to pension credits granted following the redemption of past service or the transfer of funds from supplemental pension plans and additional benefits resulting from the revaluation of certain years of service. The pension is reduced beginning at age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Death benefits

If a contributor or a pensioner aged 55 or over dies, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% of such a pension if the deceased had chosen to receive a pension reduced by 2%. In the case where there is no surviving spouse, contributions, plus interest, are refunded to the heirs, minus pension amounts paid, where applicable.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

d) Death benefits (cont'd)

If a contributor dies before the eligible retirement age of 55, the surviving spouse or heirs is or are entitled to the refund of contributions, plus interest, if the deceased had fewer than two years' pensionable service. If the deceased had more than two years' pensionable service, the surviving spouse or assigns is or are entitled to the refund of contributions, plus interest, or to the actuarial value of the deferred indexed pension, whichever is higher.

e) Severance benefits

Persons who cease to contribute to the PPMP before being eligible to receive an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' pensionable service and are under 55; otherwise they are entitled to a deferred indexed pension payable at age 65, or may request that the total contributions paid into the PPMP, plus interest, or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

f) Indexation of benefits

Pension benefits under the PPMP are fully indexed to the cost of living increase for that portion of the pension which corresponds to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension which corresponds to vested service after June 30, 1982.

Supplementary Pension Plan for Senior Officials

In keeping with section 208 of the Act respecting the Pension Plan of Management Personnel, the Government established the Supplementary Pension Plan for Senior Officials by Order-in-Council 461-92. This is a defined-benefit plan offered certain senior officials eligible for benefits under the Act respecting the Pension Plan of Management Personnel. This plan makes provision for additional benefits at the base amount determined in keeping with the act. The benefits paid out under this plan are funded by the Government.

2. ACCOUNTING POLICIES

These financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. They include amounts based on best estimates and judgements.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in individual funds of the Caisse de dépôt et placement du Québec are recorded at fair value, which is established on the basis of the market value of units, as determined by the Caisse de dépôt et placement du Québec.

The investments of these individual funds are composed primarily of participating units in individual Caisse de dépôt et placement du Québec portfolios. The net gains on the sale of investments earned by these individual portfolios, which are not distributed to individual funds, are included in the net assets of individual portfolios. These revenues are added to the cost of participation deposits.

3. CAPITALIZATION POLICY

In keeping with section 171 of the Act respecting the Pension Plan of Management Personnel, CARRA actuaries must conduct an actuarial valuation of the PPMP every three years. The goal of this valuation is to determine the employee contribution rate based on the value of the pension fund set up and benefits to be paid out.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF MANAGEMENT PERSONNEL****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousands of dollars)

3. CAPITALIZATION POLICY (cont'd)

This valuation is based on assumptions established by CARRA actuaries and deemed appropriate by the consulting actuary appointed by the retirement committee under the Act respecting the Pension Plan of Management Personnel. Moreover, the parties have agreed to use the overall attained-age actuarial cost method, free of assets.

The employee contribution and the contribution of independent employers for the fiscal year are established using a rate of 4.5% of the excess eligible earnings over 35% of maximum pensionable earnings within the meaning of the Act respecting the Québec Pension Plan (R.S.Q., c. R-9). This contribution rate is established according to the actuarial valuation carried out, in keeping with section 174 of the act respecting the Government and Public Employees Retirement Plan, for ununionizable employees according to data as at December 31, 1996 and reflects amendments to the PPMP since the publication of the valuation in October 1998. This rate corresponds to 3.65% of the pensionable earnings in 2003.

In November 2001, CARRA actuaries submitted an actuarial valuation based using data as at December 31, 1999, thus updating the previous valuation. According to this valuation, participants need not contribute to the PPMP for at least the next three years after the valuation is tabled.

For CSSP and TPP participants who chose to contribute to the PPMP, the contribution rate is increased by 4.0% without exceeding the rate of the original plans. For 2003, this rate is 7.25% for management personnel from the CSSP and 8.08% for management personnel from the TPP.

The Act respecting the Pension Plan of Management Personnel does not oblige the Government to contribute to a pension fund. However, the Government's commitments to fund regular service are presented in Note 7. They are calculated as the fund it would have created, had its contributions, established on the same bases as those used for participants and according to the above-mentioned actuarial valuation, been deposited in a pension fund.

Employee contributions and the contribution of independent employers are deposited respectively in the employee contributions fund and employer contributions funds with the Caisse de dépôt et placement du Québec.

The amounts needed to pay benefits for regular service performed since July 1, 1982 are also taken from the employee and employer contribution funds. The amounts required for service performed prior to July 1, 1982 are taken in a proportion of 5/12 from the employee contributions fund and 7/12 from the employer contributions fund. When the employer contributions fund with the Caisse de dépôt et placement du Québec is empty, the remaining amounts required to pay the share of benefits assumed by the Government are taken from the Consolidated Revenue Fund, as prescribed in the Act respecting the Pension Plan of Management Personnel.

The amounts needed to pay the additional benefits resulting from the revaluation of certain years of service entitling contributors to pension credits are taken from the employee contribution fund and the Government commits to paying into this fund the amounts needed to assume the value of benefits exceeding \$172 million.

Under the Act respecting the Government and Public Employees Retirement Plan, the benefits for pension credits acquired by buy-out or transfer from supplemental pension plans are taken from the respective RREGOP funds.

The amounts required to pay all benefits for service transferred from the TPP and the CSSP are taken from the Consolidated Revenue Fund.

Amounts deposited in the Consolidated Revenue Fund

Under Order-in-Council 987-99, employee contributions from senior officials and those of their employees are deposited into the Consolidated Revenue Fund. The amounts needed for the payment of benefits are also taken from the Consolidated Revenue Fund.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2003			2002
	Employee contributions fund	Employer contributions fund	Total	Total
Participation deposits in individual funds – at fair value (cost 2003: 5 399 553; 2002: 5 045 214) *	4 925 436		4 925 436	4 201 641
Demand deposits in the General Fund (advances)	(13 074)	26	(13 048)	(4 730)
Revenues receivable from individual funds	13 177		13 177	12 538
	<u>4 925 539</u>	<u>26</u>	<u>4 925 565</u>	<u>4 209 449</u>
* Cost of units			4 680 188	4 498 109
Cumulated gains realized, but not yet distributed by individual portfolios, included in the cost of participation deposits			719 365	547 105
			<u>5 399 553</u>	<u>5 045 214</u>

5. FINANCIAL INSTRUMENTS

The fair value of accounts payable, cash and liabilities is equal to their book value given that they mature in the near future.

6. ASSETS AVAILABLE FOR BENEFITS

	2003			2002
	Employee contributions	Employer contributions	Total	Total
Regular service	4 788 975	195 905	4 984 880	4 255 360
Transferred service		(420)	(420)	(338)
	<u>4 788 975</u>	<u>195 485</u>	<u>4 984 460</u>	<u>4 255 022</u>

The net assets available for the service of benefits resulting from pension credits acquired by buy-out or transfer from supplemental pension plans, as shown in the RREGOP financial statements, were, respectively, \$214 571 000 and \$386 605 000 as at December 31, 2003 (\$194 705 000 and \$353 053 000 as at December 31, 2002).

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PLAN**Liability recorded in the Government's financial statements**

Since the Government has not created a pension fund for this plan, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with generally recognized accounting policies applicable to the public sector in Canada. Under the Act respecting the Pension Plan of Management Personnel, the Government's share corresponds to 58.33% (7/12) of these benefits for years of service prior to July 1, 1982, 50% for years of service as of July 1, 1982 for regular service and 100% for transferred service and benefits payable to senior officials. The amount recorded corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid.

The pension costs for the PPMP correspond to the sum of the cost of accrued benefits, changes to this plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the projected benefit method prorated on service and the most probable assumptions determined by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PLAN (cont'd)**Change in the liability recorded in the Government's financial statements**

	<u>2003</u>	<u>2002</u>
For regular service		
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	<u>3 395 617</u>	<u>3 126 127</u>
Increase		
Contributions encashed	20 975	13 189
Pension costs		
Current service	175 603	165 625
Past service	20 039	20 039
Interest	253 330	236 876
Inter-plan transfers for past service	<u>75 594</u>	
	<u>545 541</u>	<u>435 729</u>
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	<u>212 373</u>	<u>166 239</u>
Net increase	<u>333 168</u>	<u>269 490</u>
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u>3 728 785</u>	<u>3 395 617</u>
Estimated liability recorded as at December 31	<u>3 989 649</u>	<u>3 636 982</u>
For transferred service		
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u>1 080 667</u>	<u>1 043 171</u>
Estimated liability recorded as at December 31	<u>1 083 183</u>	<u>1 059 844</u>

The Financial Administration Act (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (\$50 266 billion as at March 31, 2003). At December 31, 2003, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$11 739 billion, \$774 million of which are slated for the PPMP.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PLAN (cont'd)

Financing regular service

In keeping with the Act respecting the Pension Plan of Management Personnel, CARRA actuaries conduct an actuarial valuation every three years with respect to financing the regular service. In this valuation, the actuaries take legislative provisions and employment conditions into account by using the valuation method the parties agree to and determine the employee and employer contribution rates and the government contribution. Consequently, from the beginning of the RREGOP, CARRA has presented the Government's commitments to financing regular service as the fund it would have created, had these contributions, established on the same bases as those used to determine the employee fund, been deposited in a pension fund. However, the Act does not oblige the Government to contribute to the PPMP. The fair value of this fund is estimated at \$4 983 billion as at December 31, 2003.

However, in its consolidated financial statements for the year ended as at March 31, 2003, the Government does not recognize having commitments to the PPMP on the basis of sharing the annual contribution for financing. According to its interpretation of the legislative provisions of the PPMP, the Government's commitment vis-à-vis regular service must be determined based on the value of the benefits promised, for which it is responsible, in keeping with the recommendations of the Canadian Institute of Chartered Accountants. Consequently, since March 31, 1998, the pre-recorded contribution representing the difference between the fund the Government would have created, had it paid its contributions and the liability recorded in the Government's financial statements is no longer presented in the notes to the financial statements. However, these notes contain information concerning the various actuarial valuations. The Auditor General of Québec issued a restriction in his report, to the effect that the Government does not clearly acknowledge having made commitments to finance the plan, while recognizing that its financial statements correctly present the liability, net debt and surplus for the fiscal year ended March 31, 2003.

For the fiscal year, the Government contribution for regular service corresponds to 1.79% of pensionable earnings. The contribution is set according to the actuarial valuation carried out using data as at December 31, 1996 and reflects the changes made to the PPMP since the valuation was published.

In November 2001, CARRA actuaries submitted an actuarial valuation based using data as at December 31, 1999, thus updating the previous valuation. According to this valuation, no Government contribution would be necessary for three years after the valuation is tabled in order to increase the cash fund the Government will have constituted. However, since the participants' contribution rate has been set at 4.5% as stipulated in the Act respecting retirement plans for management personnel continues to apply, it is taken for granted that the corresponding Government contribution is 1.79% of pensionable earnings.

The interest credited to this fund and the unrealized gains are calculated based on the annual rate of return of the funds of the PPMP, including the gains made but not yet distributed by the specialized portfolios, entrusted to the Caisse de dépôt et placement du Québec.

Change in the fund the Government would have created (at fair value)

	2003	2002
Opening balance	4 372 935	4 878 256
Increase		
Gouvernement du Québec contributions	31 149	23 470
Interest	271 587	(162 012)
Unrealized gains	372 407	
Inter-plan transfers for past service	109 961	103 499
	5 158 039	4 843 213
Decrease		
Payments received – benefits and administrative expenses paid by the Gouvernement du Québec	175 237	180 170
Unrealized losses		290 108
Closing balance	4 982 802	4 372 935

The equivalent cost value was \$5 517 277 000 at December 2003 (\$5 279 817 000 at December 31, 2002).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

8. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the PPMP administrator. These obligations represent the value of benefits attributable to the accumulated years of service at the date of valuation.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation carried out using data as at December 31, 1999 and presented to the retirement committee on November 7, 2001. The short-term economic assumptions reflect the data known when the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$5 881 747 000 at December 31, 1999 for regular service and at \$1 576 686 000 at December 31, 2000 for years of service transferred from the TPP, CSSP and senior officials. They estimated the actuarial value of all of these benefits at \$10 069 571 000 at December 31, 2003.

	2003			2002
	Employee contributions	Employer contributions	Total	Total
Management Personnel				
Regular service	4 261 618	3 994 454	8 256 072	7 559 317
Transferred service		1 214 378	1 214 378	1 195 436
	<u>4 261 618</u>	<u>5 208 832</u>	<u>9 470 450</u>	<u>8 754 753</u>
Senior officials		599 121	599 121	552 162
	<u>4 261 618</u>	<u>5 807 953</u>	<u>10 069 571</u>	<u>9 306 915</u>

The obligations related to benefits for regular service include \$214 732 000 \$ (\$203 016 000 at December 31, 2002) for additional benefits.

Change in accrued pension obligations

	2003	2002
Actuarial present value of accrued pension benefits – beginning of year	<u>9 306 915</u>	<u>8 507 693</u>
Increase		
Changes to the PPMP		32 697
Actuarial loss		38 893
Changes in actuarial assumptions		36 607
Interest	627 337	581 169
Benefits accrued	331 004	291 798
Inter-plan transfers	169 894	126 740
	<u>1 128 235</u>	<u>1 107 904</u>
Decrease		
Benefits paid	<u>365 579</u>	<u>308 682</u>
Net increase for the year	<u>762 656</u>	<u>799 222</u>
Actuarial present value of accrued pension benefits - end of year	<u>10 069 571</u>	<u>9 306 915</u>

Benefits obligations resulting from pension credits acquired by buy-out or transfer from supplemental pension plans, as shown in RREGOP financial statements, are, respectively, \$381 150 000 and \$304 877 000 at December 31, 2003 (\$377 824 000 and \$327 623 000 at December 31, 2002).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

8. PENSION OBLIGATIONS (cont'd)

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Valuation for accounting purpose	Valuation for funding purpose
Inflation	4.00 %	2.75 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	0.60

The medium-term rates represent the average rates for 2000 – 2010 and the long-term rates represent the rates used as of 2011.

Employee obligations for capitalization purposes

Employee contributions paid into the pension fund to finance the benefits for which they are responsible are determined using different actuarial methods and assumptions than those required according to the accounting principles that are generally accepted in Canada for presenting the actuarial obligation in the financial statements.

In fact, the method used by parties to determine employee contribution rates is the overall attained-age actuarial cost method, free of assets. According to this method, employee contributions are adjusted based on the assets created so as to ensure future payment of the portion of the benefits for which they are responsible, both for service up to the date of valuation and service after this date by contributors who were employed on the date of valuation. Consequently, the value of actuarial obligations corresponds to the value of the assets created and there can be no deficit or surplus assets.

For capitalization purposes, the value of actuarial obligations for which contributors are responsible with respect to regular service was \$4 498 334 000 as at December 31, 1999 and \$4 788 975 000 as at December 31, 2003, which corresponds to the market value of the employee fund as at each of these dates.

9. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2003		2002
	Employee contributions fund	Employer contributions fund	Total
Net investment income from individual funds	196 026		196 026
Interest on demand deposits in the General Fund	53	288	341
	196 079	288	196 367
Change in fair value			
Losses from the sale of investments	(106 476)		(106 476)
Losses (gains) realized in the individual portfolios	178 256		178 256
Unrealized (gains) losses	369 456		369 456
	441 236		441 236
			(636 781)

10. BENEFITS TO CONTRIBUTORS

For fiscal 2003, \$1 070 871 (2002: \$595 412) was paid under the Senior Officials' Supplemental Pension Plan and is included in the item Gouvernement du Québec pension and change in net assets available for benefit service.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of Management Personnel regarding regular service according to contributors' profiles as at December 31, 1999 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$5 730 789 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR MANAGEMENT PERSONNEL AT DECEMBER 31, 1999, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Denis Leclerc, FICA, FSA
Director, Actuarial Service and Development

Daniel Cantin, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, March 22, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of Management Personnel regarding additional benefits resulting from the revaluation of years of service acquired at December 31, 1999. This estimate was carried out according to contributors' profiles as at December 31, 1999 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. It reveals that, at that date, this value was \$150 958 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR MANAGEMENT PERSONNEL AT DECEMBER 31, 1999, CARRIED OUT FOR ADDITIONAL BENEFITS RESULTING FROM THE REVALUATION OF CERTAIN YEARS OF SERVICE AND FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, June 20, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of Management Personnel regarding years of service transferred from the Teachers Pension Plan and the Civil Service Superannuation Plan according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$1 117 073 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN OF MANAGEMENT PERSONNEL AT DECEMBER 31, 2000, CARRIED OUT FOR YEARS OF SERVICE TRANSFERRED FROM THE CIVIL SERVICE SUPERANNUATION PLAN AND THE TEACHERS PENSION PLAN AND FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, January 8, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF MANAGEMENT PERSONNEL****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Pension Plan for Management Personnel regarding specific provisions offered senior officials according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$439 057 000. For the actuarial valuation, the Pension Plan for Senior Official designates these specific provisions.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE PENSION PLAN FOR SENIOR OFFICIALS AS AT DECEMBER 31, 2000, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Jean Dessureault, FIICA, FSA
Actuary

Québec, March 7, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan for Management Personnel for supplemental pension plans for senior officials according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$20 556 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE SUPPLEMENTAL PENSION PLAN FOR SENIOR OFFICIALS AS AT DECEMBER 31, 2000, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Jean Dessureault, FICA, FSA
Actuary

Québec, March 7, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of net assets available for benefits of the Pension Plans of Management Personnel as at December 31, 2003 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2003, and the changes in this position for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 16, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. R-10)

TEACHERS PENSION PLANS (R.S.Q., c. R-11)

PENSION PLAN OF CERTAIN TEACHERS (R.S.Q., c. R-9.1 and P-32.1)

STATEMENT OF CONTRIBUTIONS AND BENEFITS

as at December 31, 2003

(in thousands of dollars)

	2003		2002	
CONTRIBUTIONS				
Employee contributions, including contributions for past service				
Teachers Pension Plan	18 876		25 848	
Pension Plan of Certain Teachers	<u>4 054</u>	22 930	<u>4 460</u>	30 308
Contributions of independent employers				
Teachers Pension Plan		100		141
Interest revenue				
Teachers Pension Plan	10		9	
Pension Plan of Certain Teachers	<u> </u>	<u>10</u>	<u>1</u>	<u>10</u>
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND		<u><u>23 040</u></u>		<u><u>30 459</u></u>
BENEFITS				
Benefits paid				
Pensions				
Teachers Pension Plans (Note 5)	1 109 776		1 053 689	
Pension Plan of Certain Teachers	<u>147 396</u>	1 257 172	<u>144 230</u>	1 197 919
Contribution refunds				
Teachers Pension Plans	1 773		2 116	
Pension Plan of Certain Teachers	<u>4</u>	1 777	<u>217</u>	2 333
Transfers, including interest				
Teachers Pension Plans	4 927		5 093	
Pension Plan of Certain Teachers	<u>227</u>	5 154	<u>1 162</u>	6 255
Administrative expenses				
Teachers Pension Plans	3 468		4 275	
Pension Plan of Certain Teachers	<u>403</u>	<u>3 871</u>	<u>363</u>	<u>4 638</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES		1 267 974		1 211 145

PENSION OBLIGATIONS (Note 6)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 7)**

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2003
(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Teachers Pension Plans Pension Plan of Certain Teachers

The following description is given as a matter of information. To obtain more complete information concerning these plans, please consult the following:

- the Act respecting the Teachers Pension Plan (R.S.Q., c. R-11);
- the Act respecting the Pension Plan of Certain Teachers (R.S.Q., c. R-9.1);
- the Act respecting pension coverage for certain teachers (R.S.Q., c. P-32.1).

a) General information

These pension plans are administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). They are defined-benefit pension plans offered to:

- teachers appointed or hired by a recognized educational institution prior to July 1, 1973;
- certain categories of teachers who used to belong to a religious community.

b) Funding

Pension benefits under these plans are funded by contributors and independent employers according to contribution rates set by law, and by the Government, which assumes the remaining pension obligations.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at age 65 for men, or age 60 for women. They are also entitled to such benefits if they are 62 years of age and have 10 years' pensionable service, if they have 33 years' pensionable service under the Teachers Pension Plan (TPP) or 35 years' pensionable service under the Pension Plan of Certain Teachers (PPCT), or if they are 55 years of age and have 32 years' pensionable service.

Contributors are entitled to an actuarially reduced pension if they have 22 years' pensionable service and are 55 years of age for men, or 50 years of age for women. Women are also entitled to such a pension if they have 10 years' pensionable service and are 58.

The pension is calculated by multiplying the average pensionable salary for the five best-paid years by 2% per year of service. For the PPCT, an additional pension equal to the average pensionable earnings multiplied by 1.6% per year of service performed before paying into a pension plan is added to the retirement pension. The pension, including the additional pension, is reduced at age 65 to reflect coordination with the Québec Pension Plan.

d) Disability pensions

The TPP provides for payment of a disability pension to an employee who has been disabled. The pension is calculated as a regular pension according to the number of years of pensionable service.

e) Death benefits

If a contributor or a pensioner dies, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received. Each dependent child is eligible to receive a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. In the case where there is no surviving spouse or pension paid to children, contributions, without interest, are refunded to the heirs, minus pension amounts paid.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003
(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

e) Death benefits (cont'd)

If a contributor dies while participating in the PPCT and was eligible for the PPCT and an immediate retirement pension or was receiving a retirement pension, the surviving spouse is entitled to a pension in the amount of 50% of the pension to which he or she would have been entitled to receive or that the person received. In the absence of a spouse, the heirs are entitled to receive the difference with interest between the contributions and pensions paid.

In the case of the TPP, if a contributor dies before being eligible to receive an immediate pension, contributions, plus interest, are refunded to the spouse or, failing that, to the heirs.

In the case of the PPCT, if a contributor dies before being eligible to receive an immediate pension, contributions, plus interest, are refunded to the spouse or, failing that, to the heirs.

f) Severance benefits

According to the terms and conditions of the TPP, persons who cease to contribute to the plan before being eligible to receive an immediate pension are entitled to the refund of contributions if they have fewer than 10 years' pensionable service. If they have over 10 years' pensionable service, they are entitled to a deferred indexed pension or may request that the total contributions paid into the plan or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

According to the terms and conditions of the PPCT, persons who cease to contribute to the plan before being eligible to receive an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' pensionable service. If they have 10 or more years' pensionable service and are older than 45, they are entitled to a deferred indexed pension. In all other cases, contributors are entitled to choose between the refund of contributions, plus interest, or a deferred indexed pension.

Contributors are eligible for a deferred indexed pension at age 60 or 65, depending on the terms and conditions of each plan.

g) Indexation of benefits

Pension benefits under these plans are fully indexed to the cost of living increase for that portion of the pension which corresponds to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension which corresponds to vested service after June 30, 1982 and to service entitling the individual to a pension in addition to the PPCT.

Supplemental Pension Plan for Teachers

The Supplemental Pension Plan for Teachers (C.T. 195706 of December 19, 2000) determines the minimum pension when the latter is higher than the pension calculated under the TPP.

It makes provision for paying a disability pension, under certain conditions, when a contributor is disabled and does not already receive such a pension in keeping with the TPP.

2. ACCOUNTING POLICIES

The financial statement was prepared by management in accordance with the accounting principles that are generally accepted in Canada. This statement includes amounts based on best estimates and judgements. Since the plans have no assets, the statement of assets available for benefit service has not been presented.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

For the TPP, the employee and independent employer contributions for the fiscal year were 6.28% of the pensionable portion of the salary that exceeds the personal exemption under the Act respecting the Québec Pension Plan (R.S.Q., c. R-9), to the maximum pensionable earnings within the meaning of this same Act and 8.08% of the remaining pensionable earnings. Under section 177 of the Act respecting the Government and Public Employees Retirement Plan, these rates are no longer reviewed.

For the PPCT, the employee contribution is 5.35% of the surplus of pensionable earnings over 35% of the maximum pensionable earnings within the meaning of the Act respecting the Québec Pension Plan.

The employee and independent employer contributions are deposited in the Consolidated Revenue Fund. The Act respecting the Teachers Pension Plan and the Act respecting the Pension Plan of Certain Teachers do not oblige the Government to contribute to these plans. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. AMOUNTS RECEIVABLE / TRANSFERS - PENSION PLAN OF CERTAIN TEACHERS

Sections 53 and 54 of the Act respecting the Pension Plan of Certain Teachers, in force since June 1986, stipulate that all amounts paid into the Caisse de dépôt et placement du Québec under the Act respecting the Government and Public Employees Retirement Plan for individuals covered by this Act must be transferred to the Consolidated Revenue Fund. However, any benefits paid or payable are deducted from these amounts.

As at December 31, 2003, an amount of \$3 847 000 (\$4 040 000 as at December 31, 2002) was receivable in relation to this transfer. In keeping with the capitalization policy, this amount will be paid into the Consolidated Revenue Fund.

5. BENEFITS TO CONTRIBUTORS

For fiscal 2003, \$3 061 028 \$ (2002: \$2 827 546) was paid under the Supplemental Pension Plan for Teachers and is included in the item Pensions.

6. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on services and the most probable assumptions in the opinion of the plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuations of the Government and Public Employees Retirement Plan using data as at December 31, 1999 and tabled with the retirement committee on November 7, 2001. Changes were made to certain assumption to reflect participants' profiles and specific plan provisions. Short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits of the TPP at \$13 668 034 000 as at December 31, 1999 and those of the PPCT at \$1 672 492 000 as at December 31, 2000, and estimated these amounts at \$13 656 496 000 and \$1 624 780 000 as at December 31, 2003.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003
(in thousands of dollars)

6. PENSION OBLIGATIONS (cont'd)**Change in pension obligations**

	2003	2002
Teachers Pension Plan		
Actuarial present value of accrued pension benefits – beginning of year	13 826 352	13 919 109
Increase		
Interest	897 418	905 819
Benefits accrued	53 940	73 738
	951 358	979 557
Decrease		
Benefits paid	1 116 476	1 060 898
Inter-plan transfers for past service	4 738	11 416
	1 121 214	1 072 314
Net decrease for the year	(169 856)	(92 757)
Actuarial present value of accrued pension benefits – end of year	13 656 496	13 826 352
Pension Plan of Certain Teachers		
Actuarial present value of accrued pension benefits – beginning of year	1 651 315	1 548 959
Increase		
Actuarial loss		104 856
Change in actuarial assumptions		21 731
Changes to PPCT		4 116
Interest	106 636	108 222
Benefits accrued	4 538	6 210
Inter-plan transfers for pas service	9 918	7 087
	121 092	252 222
Decrease		
Corrections to participant data		4 257
Benefits paid	147 627	145 609
	147 627	149 866
Net increase (decrease) for the year	(26 535)	102 356
Actuarial present value of accrued pension benefits – end of year	1 624 780	1 651 315
	15 281 276	15 477 667

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
 PENSION PLAN OF CERTAIN TEACHERS
 NOTES TO FINANCIAL STATEMENTS (cont'd)
 December 31, 2003
 (in thousands of dollars)

6. PENSION OBLIGATIONS (cont'd)
Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Valuation for accounting purpose	Valuation for funding purpose
Inflation	4.00 %	2.75 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	0.60

The medium-term rates represent the average rates for 2000 - 2010, while the long-term rates represent the rates used as of 2011. The assumption related to yield is determined by presuming that, if the plans were fully capitalized, the amounts would be invested in a portfolio identical to that of the cash fund of contributors to the Government and Public Employees Retirement Plan (RREGOP).

7. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for this plan, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with generally recognized accounting policies applicable to the public sector in Canada. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the plans in the Consolidated Revenue Fund.

The pension costs for the plan correspond to the sum of the cost of accrued benefits, changes to the plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the accumulated benefit method prorated based of services and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	2003	2002
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	14 363 869	14 342 963
Increase		
Contributions recovered	27 558	38 606
Pension costs		
Current service	54 144	71 531
Past service	60 628	53 076
Interest	1 013 211	1 011 587
Inter-plan transfers for past service	11 375	6 056
	1 166 916	1 180 856
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	1 228 581	1 159 950
Net increase (decrease) for the year	(61 665)	20 906
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	14 302 204	14 363 869
Estimated liability recorded as at December 31	14 190 145	14 315 989

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003
(in thousands of dollars)

7. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (cont'd)**Change in the liability recorded in the Government's financial statements (cont'd)**

The Financial Administration Act (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (\$50 266 billion as at March 31, 2003). At December 31, 2003, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$11 739 billion, \$5 273 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$774 million for the Pension Plan of Management Personnel.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**TEACHERS PENSION PLANS****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Teachers Pension Plans according to the contributors' profile as at December 31, 1999, in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statement. The valuation revealed that, at that date, the value was \$13 668 034 000.

ACTUARIAL OPINION INTEGRAL TO THE VALUATION OF THE TEACHERS PENSION PLANS AS AT DECEMBER 31, 1999, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Denis Leclerc, FICA, FSA
Director, Actuarial Service and Development

André Simard, FICA, FSA
Actuary

Québec, March 22, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN OF CERTAIN TEACHERS****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of Certain Teachers according to the contributors' profile as at December 31, 2000, in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statement. The valuation revealed that, at that date, the value was \$1 672 492 000.

**ACTUARIAL OPINION INTEGRAL TO THE VALUATION OF THE PENSION PLAN OF CERTAIN TEACHERS AS AT
DECEMBER 31, 2000, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS
RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS**

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Alain Jacob, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, December 20, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of contributions and benefits of the Teachers Pension Plans and the Pension Plan of Certain Teachers for the year ended December 31, 2003. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statement is free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of these plans for the year ended December 31, 2003 in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 16, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. R-10)

CIVIL SERVICE SUPERANNUATION PLANS

(R.S.Q., c. R-12)

STATEMENT OF CONTRIBUTIONS AND BENEFITS

as at December 31, 2003

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
CONTRIBUTIONS		
Employee contributions, including contributions for past service	6 980	6 743
Contributions of autonomous employers	1 815	1 588
Interest on contributions receivable from independent employers and other interest income	<u> </u>	<u>1</u>
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND	<u>8 795</u>	<u>8 332</u>
 BENEFITS		
Benefits paid		
Pensions (Note 4)	439 410	437 654
Contribution refunds	386	230
Transfers, including interest	2 796	1 087
Administrative expenses	<u>1 575</u>	<u>1 551</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES	<u>444 167</u>	<u>440 522</u>

PENSION OBLIGATIONS (Note 5)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 6)**

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Civil Service Superannuation Plan

The following description of the Civil Service Superannuation Plan (CSSP) is given as a matter of information. To obtain more complete information concerning this plan, please consult the Act respecting the Civil Service Superannuation Plan (R.S.Q., c. R-12).

a) General information

The CSSP is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to civil service employees appointed or hired prior to July 1, 1973.

b) Funding

Pension benefits under these plans are funded by contributors and independent employers according to contribution rates set by law, and by the Government, which assumes the remaining pension obligations.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction:

- at age 65;
- at age 62 for men, or age 60 for women, if they have 10 years' pensionable service;
- if they have 35 years' pensionable service;
- at age 55 if they have 32 years' pensionable service; or
- at age 60 if their age and years of pensionable service total 90.

They are entitled to an actuarially reduced pension at age 55 for men, or 50 for women, if they have accumulated 22 years' pensionable service, at age 60, or under age 60 if their age and years of pensionable service total 90.

The pension is calculated by multiplying the average pensionable salary of the five best-paid years by 2% per year of service. The pension is reduced beginning at age 65 in order to coordinate with the Québec Pension Plan.

d) Disability pensions

The CSSP provides for payment of a disability pension to an employee who has been disabled. The pension is calculated as a regular pension according to the number of years of pensionable service accumulated toward the plan.

e) Death benefits

If a contributor or a pensioner dies, the surviving spouse is entitled to a pension equal to 60% of the pension the deceased was receiving or would have received. Each dependent child is eligible to receive a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. In the case where there is no surviving spouse or pension paid to children, contributions, without interest, are refunded to the heirs, minus pension amounts paid.

f) Severance benefits

Persons who cease to contribute to the CSSP before being eligible for an immediate pension are entitled to the refund of contributions if they have fewer than 10 years' pensionable service. If they have over 10 years' pensionable service, they are entitled to a deferred indexed pension at age 65 for men, or 60 for women, or may request that the total contributions paid into the CSSP or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**CIVIL SERVICE SUPERANNUATION PLANS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)**g) Indexation of benefits**

Pension benefits under the CSSP are fully indexed to the cost of living increase for that portion of the pension which corresponds to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension which corresponds to vested service after June 30, 1982.

Supplemental Pension Plan for Civil Servants

The Supplemental Pension Plan for Civil Servants (C.T. 195705 of December 19, 2000) determines the minimum pension when the latter is higher than the pension calculated under the CSSP.

It makes provision for paying a disability pension, under certain conditions, when a contributor is disabled and does not already receive such a pension in keeping with the CSSP.

2. ACCOUNTING POLICIES

This financial statement was prepared by management in accordance with the accounting principles that are generally accepted in Canada. This statement includes amounts based on best estimates and judgements. Since the CSSP has no assets, the statement of assets available for benefit service has not been presented.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

For the CSSP, the employee and independent employer contributions for the fiscal year were 5.45% of the pensionable portion of the salary that exceeds the personal exemption under the Act respecting the Québec Pension Plan (R.S.Q., c. R-9), to the maximum pensionable earnings within the meaning of this same Act and 7.25% of the remaining pensionable earnings. Under section 177 of the Act respecting the Government and Public Employees Retirement Plan, these rates are no longer reviewed.

The employee and independent employer contributions are deposited in the Consolidated Revenue Fund. The Act does not oblige the Government to contribute to the CSSP. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. BENEFITS TO CONTRIBUTORS

For fiscal 2003, \$110 412 (\$102 687 in 2002) was paid under the Supplemental Pension Plan for Civil Servants and is included in the item Pension.

5. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on services and the most probable assumptions in the opinion of the plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation of the Government and Public Employees Retirement Plan carried out using data as at December 31, 1999 and tabled with the retirement committee on November 7, 2001. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$5 458 424 000 as at December 31, 1999 and estimated it at \$5 276 654 000 as at December 31, 2003.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

5. PENSION OBLIGATIONS (cont'd)

Change in pension obligations

	2003	2002
Actuarial present value of accrued pension benefits – beginning of year	5 350 494	5 416 906
Increase		
Interest	346 957	351 535
Benefits accrued	21 795	21 024
	368 752	372 559
Decrease		
Benefits paid	442 592	438 971
Net decrease for the year	73 840	66 412
Actuarial present value of accrued pension benefits – end of year	5 276 654	5 350 494

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Valuation for accounting purpose	Valuation for funding purpose
Inflation	4.00 %	2.75 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	0.60

The medium-term rates represent the average rates for the period 2000 to 2010, while the long-term rates represent the rates used as of 2011. The assumption related to yield is determined by presuming that, if the plan were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

6. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for these plans, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with generally recognized accounting policies applicable to the public sector in Canada. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the CSSP in the Consolidated Revenue Fund.

The pension costs for the CSSP correspond to the sum of the cost of accrued benefits, changes to this plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the projected benefit method prorated on service and the most probable assumptions determined by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

6. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (cont'd)**Change in the liability recorded in the Government's financial statements**

	<u>2003</u>	<u>2002</u>
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	<u>5 067 369</u>	<u>5 105 134</u>
Increase		
Contributions recovered	7 539	9 134
Pension costs		
Current service	17 467	20 859
Past service	15 450	15 450
Interest	<u>351 295</u>	<u>355 289</u>
	<u>391 751</u>	<u>400 732</u>
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	<u>442 219</u>	<u>438 497</u>
Net decrease for the year	<u>50 468</u>	<u>37 765</u>
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u><u>5 016 901</u></u>	<u><u>5 067 369</u></u>
Estimated liability recorded as at December 31	<u><u>4 973 064</u></u>	<u><u>5 029 063</u></u>

The Financial Administration Act (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (\$50 266 billion as at March 31, 2003). At December 31, 2003, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$11 739 billion, \$5 273 billion of which are slated for the Government and Public Employees Retirement Plan and \$774 million for the Pension Plan of Management Personnel.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**CIVIL SERVICE SUPERANNUATION PLANS****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Civil Service Superannuation Plan according to the contributors' profile as at December 31, 1999 in order to determine the value of the obligations resulting from the Plan and to be recorded in the financial statement. This valuation revealed that, at that date, the value was \$5 458 424 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE CIVIL SERVICE SUPERANNUATION PLAN AS AT DECEMBER 31, 1999 CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF THE OBLIGATIONS RESULTING FROM THE PLAN RECORDED IN THE FINANCIAL STATEMENT

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Denis Leclerc, FICA, FSA
Director, Actuarial Service and Development

André Simard, FICA, FSA
Actuary

Québec, March 22, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**CIVIL SERVICE SUPERANNUATION PLANS****AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of contributions and benefits of the Civil Service Superannuation Plans for the year ended December 31, 2003. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statement is free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of the plans for the year ended December 31, 2003 in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 16, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. R-10)

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

STATEMENT OF CONTRIBUTIONS AND BENEFITS

for the year ended December 31, 2003

(in thousands of dollars)

	<u>2003</u>		<u>2002</u>	
CONTRIBUTIONS				
Employee contributions, including contributions for past service				
Pension plans offered to judges of the Québec Court and certain municipal courts		1 845		1 770
Municipalities' contributions, including contributions for previous service				
Pension plans offered to judges of the Québec Court and certain municipal courts	105		131	
Supplemental pension plans offered to judges of the Québec Court and certain municipal courts	<u>136</u>	<u>241</u>	<u>106</u>	<u>237</u>
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND		<u>2 086</u>		<u>2 007</u>
BENEFITS				
Benefits paid				
Pensions				
Pension plans offered to judges of the Québec Court and certain municipal courts	15 132		14 618	
Supplemental pension plans offered to judges of the Québec Court and certain municipal courts	2 585		1 999	
Pension Plan of the Public Protector and his/her assistant	<u>250</u>	<u>17 967</u>	<u>182</u>	<u>16 799</u>
Administrative expenses				
Pension plans offered to judges of the Québec Court and certain municipal courts		<u>44</u>		<u>35</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES		<u>18 011</u>		<u>16 834</u>

PENSION OBLIGATIONS (Note 4)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS** (Note 5)

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Pension plan of the judges of the Court of Québec and certain municipal courts

Pension plan of certain judges of the Court of Québec appointed before January 1, 2001

Pension plan of certain judges of the Court of Québec appointed before May 30, 1978

Supplemental pension plans for judges established under section 122 of the Courts of Justice Act

The following description is given as a matter of information. To obtain more complete information concerning these plans, please consult Parts V.1 to V.3 of the Courts of Justice Act (R.S.Q., c. T-16) for the pension plans and Orders-in-Council 326-93 and 695-2001 for the supplemental pension plans.

a) General information

These pension plans and supplemental pension plans are administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). They are defined-benefit pension plans offered to judges of the Court of Québec, including those of the Québec City and Laval municipal courts.

In keeping with section 25 of Act to amend the Securities Act (Q.S. 1971, c. 77), the Pension plan of certain judges appointed before May 30, 1978 also applies to commissioners of the Commission des valeurs mobilières du Québec who were in office in July 7, 1971.

b) Funding

Pension plan of the judges of the Court of Québec and certain municipal courts (PPJCQM) benefits are funded by participants and municipalities according to the contribution rate set by law. The Government assumes the balance of benefit obligations.

For the other plans, benefits are entirely funded by the Government.

c) Retirement benefits

PPJCQM contributors acquire the right to a retirement pension without an actuarial reduction at age 65 or when the sum of their age and years of service total 80 and they acquire the right to a reduced pension when they have accumulated 21.7 years of service. According to the provisions of the PPCJQM, the retirement pension is calculated by multiplying the average pensionable earnings for the three best-paid years by 1.5% per year of service. Contributors acquire the right to a supplemental pension which equals the surplus of the amount obtained by multiplying total average pensionable earnings for the three best-paid years by 3.0% per year of service over the retirement pension calculated under the basic plan. The sum of PPJCQM benefits and supplemental pension plan benefits cannot exceed 65% of average pensionable earnings or be lower than 55% thereof if their age and years of service total 80.

Contributors to the Pension plan of certain judges appointed before January 1, 2001 acquired the right to a retirement pension without the actuarial reduction at age 65 or a reduced pension when they have 25 years of service. The retirement pension is calculated by multiplying the average pensionable earnings for the three best-paid years by 2.8% per year of service for years of service prior to December 31, 1991 and by 1.5% per year of service thereafter. Contributors acquire the right to a supplemental pension which equals the surplus of the amount obtained by multiplying total average pensionable earnings for the three best-paid years by 2.8% per year of service over the retirement pension calculated under the basic plan.

According to the provisions of the Pension plan of certain judges of the Court of Québec appointed before May 30, 1978, the pension constitutes a set amount.

d) Disability pension

These pension plans can provide for payment of a disability pension to an employee who has been totally and permanently disabled. This pension is calculated according to the same terms and conditions as a regular pension.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

Pension plan of the judges of the Court of Québec and certain municipal courts

Pension plan of certain judges of the Court of Québec appointed before January 1, 2001

Pension plan of certain judges of the Court of Québec appointed before May 30, 1978

Supplemental pension plans for judges established under section 122 of the Courts of Justice Act (cont'd)

e) Death benefits

If a contributor or a pensioner under the PPJCQM or the PPCBJB died, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% or 66 2/3% if the contributor had chosen a reduced pension. Each dependent child is eligible to receive a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. If a contributor dies before being eligible to receive a pension, contributions, plus interest, are refunded to the surviving spouse or, failing that, to the heirs.

If a contributor dies while receiving a Pension plan of the judges of the Court of Québec and certain municipal courts pension, the surviving spouse is entitled to a pension in the amount of 50% of the pension that the person received

The same conditions apply to supplemental benefits.

f) Severance benefits

Persons who cease to contribute to the PPJCQM or the PPCBJB before being eligible for an immediate pension are entitled to a deferred indexed pension at age 65 if they have more than two years' pensionable service; otherwise, they are entitled to the refund of contributions, plus interest. The same conditions apply to supplemental benefits.

g) Indexation of benefits

Pension benefits under the PPJCQM and PPCBJB and supplemental benefits are fully indexed to the cost of living increase for the portion of the pension which corresponds to vested service prior to July 1, 1990, and are partially indexed for the portion of the pension which corresponds to vested service after June 30, 1990. Pension benefits under the PPCJBM are fully indexed if contributors opt for such indexation by investing the required amounts.

Pension plan of the Public Protector and his/her assistant

The following description is given as a matter of information. To obtain more complete information concerning these plans, please consult the Public Protector Act (R.S.Q., c. P-32) regarding the pension plan of the Public Protector and his/her assistant;

a) General information

This pension plan is administered by CARRA. It is a defined-benefit pension plan

b) Funding

Pension benefits under this plan is funded entirely by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

Pension plan of the Public Protector and his/her assistant (cont'd)

c) Retirement benefits

Benefits under the pension plan of the Public Protector and his/her assistant are equal to 25% of what the contributor was earning at retirement per period of 5 years' pensionable service, without exceeding 75%. In the event of death, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received. The plan also provides for payment of a disability pension to an employee who has been disabled. Pension benefits are not indexed to the cost of living increase.

2. ACCOUNTING POLICIES

This financial statement was prepared by management in accordance with the accounting principles that are generally accepted in Canada. This statement includes amounts based on best estimates and judgements. Since the plans have no assets, the statement of assets available for benefit service has not been presented.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

For the fiscal year, the employee contribution to the PPJCQM equals 7.0% of pensionable earnings. The PPCBJB has been non-contributory since January 1, 1990. The municipalities make contributions corresponding to 27.98% of the payroll of the judges in question (11.91% for the basic plan and 16.07% for supplementary benefits).

The judges contemplated by the PPJCQM, including those that opted for this plan, must pay an amount equal to the contribution they would have paid for the year 2000. This amount may not exceed the amount eligible for contributions for past service under the tax rules applicable. Amounts can be paid in equal instalments, with interest, over a maximum of three years.

The Pension plan of the Public Protectors and his/her assistant is non-contributory.

Employee and municipal contributions are deposited in the Consolidated Revenue Fund. The Act does not oblige the Government to contribute to these plans. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation of the Government and Public Employees Retirement Plan carried out using data as at December 31, 1999 and tabled with the retirement committee on November 7, 2001. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$263 287 000 as at December 31, 2000 for the pension plans of the judges of the Québec Court and certain municipal courts and at \$2 700 782 as at December 31, 2002 for the Pension Plan of the Public Protector and his/her Assistant. For all of these plans, the actuarial value of accrued benefits is estimated at \$304 437 000 as at December 31, 2003.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

4. PENSION OBLIGATIONS (cont'd)
Change in pension obligations

	2003	2002
Actuarial present value of accrued pension benefits – beginning of year	291 769	275 871
Increase		
Actuarial loss		17 463
Corrections to participant data		44
Interest	19 470	18 649
Benefits accrued	11 165	11 044
	30 635	47 200
Decrease		
Change to actuarial assumptions		5 845
Changes made to plans		8 658
Benefits paid	17 967	16 799
	17 967	31 302
Net increase for the year	12 668	15 898
Actuarial present value of accrued pension benefits – end of year	304 437	291 769

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	4.00 %	2.75 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	1.20

The medium-term rates represent the average rates for the period 2001 to 2010, while the long-term rates represent the rates used as of 2011. The assumption related to yield is determined by presuming that, if the plan were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for these plans, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with generally recognized accounting policies applicable to the public sector in Canada. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the plans in the Consolidated Revenue Fund.

The pension costs for the plans correspond to the sum of the cost of accrued benefits, changes to the plans during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the accumulated benefit method prorated based on service and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	2003	2002
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	278 134	235 041
Increase		
Contributions recovered	2 202	3 062
Pension costs		
Current service	8 652	10 160
Past service	(325)	27 795
Interest	18 508	17 715
	29 037	58 732
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	16 776	15 639
Net increase	12 261	43 093
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	290 395	278 134
Estimated liability recorded as at December 31	299 479	287 876

The Financial Administration Act (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (March 31, 2003: \$50 266 billion). At December 31, 2003, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$11 739 billion, \$5 273 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$774 million for the Pension Plan of Management Personnel.

6. COMPARATIVE FIGURES

Certain 2002 figures have been adjusted to comply with the presentation adopted in 2003.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Pension plans of the judges of the Québec Court and certain municipal courts established under the Courts of Justice Act (R.S.Q., c. T-16) according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plans to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$197 130 000. For the actuarial valuation, the Pension plan of judges of the Québec court designates all plans.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE PENSION PLAN OF THE JUDGES OF THE QUEBEC COURT AS AT DECEMBER 31, 2000, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, December 20, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Supplemental pension plans for the judges of the Québec Court and certain municipal courts established under section 122 of the Courts of Justice Act according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plans to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$66 157 000. For the actuarial valuation, the Pension plan of judges of the Québec court designates all plans.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE SUPPLEMENTAL PENSION PLAN OF THE JUDGES OF THE QUEBEC COURT AS AT DECEMBER 31, 2000, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, December 20, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Public Protector and his/her assistant according to contributors' profiles as at December 31, 2002 in order to determine the value of the obligations resulting from the Plans to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$2 700 782.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT AS AT DECEMBER 31, 2002, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Québec, February 7, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS
PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT
AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of contributions and benefits of the pension plans mentioned in Note 1 for the year ended December 31, 2003. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statement is free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2003, and the changes in this position for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 16, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. R-10)

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION**STATEMENT OF CONTRIBUTIONS AND BENEFITS**

for the year ended December 31, 2003

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
CONTRIBUTIONS		
Employee contributions, including contributions for past service	21 305	17 361
Contributions of independent employers	156	107
Transfers, including interest (Note 4)	69 842	409
Interest income	<u>37</u>	<u>16</u>
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND	<u><u>91 340</u></u>	<u><u>17 893</u></u>
BENEFITS		
Benefits paid		
Pensions	132 442	126 924
Special pension	31	
Contribution refunds	184	257
Transfers, including interest	5 108	423
Administrative expenses	<u>687</u>	<u>471</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES	<u><u>138 452</u></u>	<u><u>128 075</u></u>

PENSION OBLIGATIONS (Note 5)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 6)**

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION****NOTES TO FINANCIAL STATEMENTS**

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLAN AND THE SPECIAL PENSION**Superannuation plan for the members of the Sûreté du Québec**

The description of the Superannuation Plan for the Members of the Sûreté du Québec is given as a matter of information. To obtain more complete information concerning this plan, please consult the 1992 agreement between the Gouvernement du Québec and the Association des policiers provinciaux du Québec as well as the letter of agreement endorsed by the parties in 2001 for the period January 1, 1992 to June 30, 2002.

a) General information

The Plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to eligible members of the Sûreté du Québec.

b) Funding

Pension benefits under these plans are funded by contributors and independent employers according to contribution rates set by the agreement, and by the Government, which assumes the remaining pension obligations.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction if they have 25 years' pensionable service or if their age and years of pensionable service total 75.

They are entitled to an actuarially reduced pension if they have 20 years' pensionable service.

Contributors must retire at age 65 or if they have 35 years' pensionable service.

The pension is equal to the sum of the following:

- for past service credited prior to January 1, 1992, the amount obtained by multiplying the average pensionable salary for the 48 best-paid months by 2.3% per year of service for the first 30 years of service and by 0.5% per year for the thirty-first and thirty-second years; and
- for service credited after December 31, 1991, the amount obtained by multiplying the average pensionable salary for the 36 best-paid months by 2% per year of service, to which is added, until age 65, an additional amount equal to 0.3% per year of service.

The pension for past service cumulated prior to January 1, 1992, is reduced beginning at age 65 to coordinate it with that of the Québec Pension Plan.

d) Death benefits

If a person dies while not on duty and contributed to the plan for at least 10 years, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, excluding the additional amount. If the person did not have 10 years of service, the contributions are reimbursed with interest to the surviving spouse or, if there is no spouse, to the heirs.

Each dependent child is eligible to receive a pension equal to 10% of this pension, if a pension is paid to the spouse, without the total pension awarded to all dependent children exceeding 40% of the pension the deceased was receiving or would have received. If no pension is paid to the spouse, the dependent children share, in equal parts, a pension equal to that which the surviving spouse would have received, plus 10% per child, beginning with the second child, without the total pension awarded to all the children exceeding 80% of the pension the deceased was receiving or would have received.

If a person dies while in office, benefits are payable when payment of the special pension stops.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

e) Severance benefits

Persons who cease to contribute to the plan before being eligible for an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' service.

In all other cases, contributors may choose between the partial or complete refund of contributions, plus interest, and a deferred indexed pension, depending on their age and years of service when they cease to contribute to the plan.

The deferred pension plan is payable without an actuarial reduction as soon as the person is 60 or over or with an actuarial reduction the date the person attains 32 years of service, whichever comes first.

f) Indexation of benefits

Pensioners who became members of the Sûreté du Québec prior to April 1, 1987, receive pensions which are fully indexed to the cost of living increase for pensionable service credited prior to January 1, 1992, and up to 20 years' pensionable service after that date. In all other cases, pensions are partially indexed to the cost of living increase.

Special pension

In keeping with an agreement between the Gouvernement du Québec and the Association des policiers provinciaux du Québec, benefits payable on death of a member of the Sûreté du Québec on duty before he/she is eligible for a retirement pension under the Plan, or before he/she is 60, correspond to 80% of the wage he/she would have received up to the first of these dates. These benefits are payable to the member's spouse or, if there is no spouse, to his/her dependent children.

2. ACCOUNTING POLICIES

This financial statement was prepared by management in accordance with the accounting principles that are generally accepted in Canada. This statement includes amounts based on best estimates and judgements. Since the plans have no assets, the statement of assets available for benefit service has not been presented.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

The employee and independent employer contributions for the fiscal year were 6.2% of the pensionable portion of the salary that exceeds the personal exemption under the Act respecting the Québec Pension Plan (R.S.Q., c. R-9), to the maximum pensionable earnings within the meaning of this same Act and 8% of the remaining pensionable earnings.

The employee and independent employer contributions are deposited in the Consolidated Revenue Fund. The Act does not oblige the Government to contribute to these plans. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. TRANSFER OF MUNICIPAL POLICE OFFICERS

Following the reform of the Act concerning the organization of police services (R.S.Q., c. 19), the Government and the Association des policiers provinciaux du Québec signed an agreement on the pension benefits of police officers that were integrated into the Sûreté du Québec. Several municipalities chose to abolish their police corps to use Sûreté du Québec services. Many municipal police officers integrated into the Sûreté du Québec opted to have their past years of service recognized under the terms of the agreement. As at December 31, 2003, \$9 430 000 is receivable with regard to a transfer of sums related to the recognition of these years of service. In keeping with the capitalization policy, this amount will be paid into the Consolidated Revenue Fund.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION
NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

5. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuations conducted using data from the Government and Public Employees Retirement Plan as at December 31, 1999 and tabled before the retirement committee on November 7, 2001. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$2 467 509 000 as at December 31, 2001 and estimated it at \$2 883 254 000 as at December 31, 2003.

Change in pension obligations

	2003	2002
Actuarial present value of accrued pension benefits – beginning of year	2 660 820	2 565 168
Increase		
Interest	179 384	170 605
Benefits accrued	130 784	52 651
	310 168	223 256
Decrease		
Benefits paid	137 734	127 604
Net increase for the year	172 434	95 652
Actuarial present value of accrued pension benefits – end of year	2 833 254	2 660 820

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Valuation for accounting purposes	Valuation for funding purpose
Inflation	4.00 %	2.75 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	0.70

The medium-term rates represent the average rates for the period 2001 to 2010, while the long-term rates represent the rates used as of 2011. The assumption related to yield is determined by presuming that, if the plan were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

6. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for this plan, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with generally recognized accounting policies applicable to the public sector in Canada. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the plan in the Consolidated Revenue Fund.

The pension costs for the plan correspond to the sum of the cost of accrued benefits, changes to this plan during the year and amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the projected benefit method prorated on service and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	2003	2002
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	2 483 632	2 395 195
Increase		
Contributions recovered	22 652	15 792
Pension costs		
Current service	36 599	33 467
Past service	1 623	736
Interest	169 792	164 222
	230 666	214 217
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	132 955	125 780
Net increase for the year	97 711	88 437
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	2 581 343	2 483 632
Estimated liability recorded as at December 31	2 712 277	2 549 991

The Financial Administration Act (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (March 31, 2003: \$50 266 billion). At December 31, 2003, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$11 739 billion, \$5 273 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$774 million for the Pension Plan of Management Personnel.

7. CONTINGENCIES

A contributor filed a grievance in respect of the average pensionable salary used by CARRA to calculate the amount of pension benefits. CARRA is unable to determine the chances of the contributor's winning the case and, if so, the attendant financial impacts.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Superannuation Plan for the Members of the Sûreté du Québec according to the contributors' profile as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan and to be recorded in the financial statement. This valuation revealed that, at that date, the value was \$2 467 509 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AT DECEMBER 31, 2000, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENT

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, March 28, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of contributions and benefits of the Superannuation Plan for the Members of the Sûreté du Québec and special pension for the year ended December 31, 2003. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statement is free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of this plan as for the year ended December 31, 2003, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 16, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. R-10)

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

(R.S.Q., c. R-9.2)

CONTRIBUTIONS AND BENEFITS

for the year ended December 31, 2003

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
CONTRIBUTIONS		
Employee contributions, including contributions for past service	3 876	3 657
Reimbursement of excess employee contributions collected in 2000	<u> </u>	<u>(4 186)</u>
AMOUNTS DEPOSITED (TAKEN FROM) IN THE CONSOLIDATED REVENUE FUND	<u>3 876</u>	<u>(529)</u>
BENEFITS		
Benefits paid		
Pensions	24 577	22 230
Contribution refunds and transfers, including interest	968	1 572
Administrative expenses	<u>670</u>	<u>255</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND AND ADMINISTRATIVE EXPENSES	<u>26 215</u>	<u>24 057</u>

GOVERNMENT COMMITMENTS VIS-À-VIS THE PLAN (Note 4)**PENSION OBLIGATIONS (Note 5)**

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLAN

The description of the Pension Plan for Peace Officers in Correctional Services (PPPOCS) is given as a matter of information. To obtain more complete information concerning this plan, please consult the Act respecting the Pension Plan for Peace Officers in Correctional Services (R.S.Q., c. R-9.2).

a) General information

The Plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to members of the Syndicat des agents de la paix en services correctionnels du Québec, to intermediate officers represented by the Fraternité des cadres intermédiaires des agents de la paix de la fonction publique or the Association des administrateurs des établissements de détention du Québec and to certain categories of employees at the Institut Pinel.

b) Funding

Benefits are funded in the following proportions: contributors - 54% and Government - 46%, with the exception of supplemental benefits resulting from the revaluation of certain years of service that are funded entirely by contributors.

The PPPOCS's administrative expenses are assumed by the Government.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at age 60 if they have 32 years' pensionable service, or at age 50 if they have 30 years' pensionable service.

They are entitled to an actuarially reduced pension if they have 25 years' pensionable service.

The pension is calculated by multiplying the average pensionable salary for the five best-paid years by 2% per year of service credited after December 31, 1991, plus, until age 65, an amount equal to 0.1875% of the average salary per year of service. For the years of service accumulated prior to December 31, 1991, the annual acquisition rate is 2.1875%. The pension is reduced beginning at the age of 65 in order to coordinate it with that of the Québec Pension Plan. For those having contributed to the PPPOCS at some point between 1988 and 1991, supplemental benefits payable until age 65 can be added to the pension. For those having contributed to the Plan at some point between 1995 and 2000, additional benefits payable until age 65 can be added to the pension.

d) Death benefits

If a person dies while contributing to the PPPOCS and was eligible for an immediate pension plan or was receiving a retirement pension, the spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% if the deceased had chosen to receive a pension reduced by 2%. Each dependent child is eligible to receive a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. If there is no surviving spouse and no pension is paid to the children, the contributions are reimbursed with interest to the heirs minus any benefit paid.

If a contributor dies before being eligible for a pension, contributions, plus interest, are refunded to the spouse or, failing that, to the heirs.

e) Severance benefits

Persons who cease to contribute to the PPPOCS before being eligible to receive an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' pensionable service; otherwise, they are entitled to a deferred indexed pension payable at the age of 65.

f) Indexation of benefits

Pension benefits under the PPPOCS are partially indexed to the cost of living increase.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

2. ACCOUNTING POLICIES

This financial statement was prepared by management in accordance with the accounting principles that are generally accepted in Canada. This statement includes amounts based on best estimates and judgements. Since the PPOCS has no assets, the statement of assets available for benefit service has not been presented.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

In keeping with section 126 of the Act respecting the Pension Plan of Peace Officers in Correctional Services, CARRA actuaries must conduct an actuarial valuation of the PPPOCS every three years. The goal of this valuation is to determine the employee contribution rate based on the benefits to be paid out and the value of the fund they would have set up had they capitalized their share. This valuation is based on assumptions established by CARRA actuaries and on the attained-age actuarial cost method, free of assets.

The employee contribution for the fiscal year is 1.0% calculated on the pensionable earnings exceeding the lesser of the following amounts: 25% of pensionable earnings or 25% of the maximum pensionable earnings under the Act respecting the Quebec Pension Plan (R.S.Q., c. R-9). This contribution rate was established based on the actuarial valuation conducted using data as at December 31, 1997 and agreements between the parties since its publication in April 2000.

Since January 1, 2000, an additional employee contribution of 3.0% is deducted to constitute a fund for financing supplemental benefits. The amounts paid generate annually compounded interest according to the rate of return of the employee contributions fund of the Government and Public Employees Retirement Plan (RREGOP) at the Caisse de dépôt et placement du Québec. This rate is determined according to the cost exposure.

Employee contributions are deposited in the Consolidated Revenue Fund. The Act does not oblige the Government to contribute to the PPPOCS. However, the Government's commitments to financing the PPOCS are presented in Note 4. They are calculated as the fund the parties would have created, had their contributions, established according to the above-mentioned actuarial valuation, been deposited in a pension fund.

The amounts required to pay all benefits are taken from the Consolidated Revenue Fund.

4. GOVERNMENT COMMITMENTS VIS-À-VIS THE PLAN

Liability recorded in the Government's financial statements

Since the Government has not created a pension fund for this shared-cost plan and because the employee contributions are deposited in the Consolidated Revenue Fund, it records, as a liability in the financial statements, the following amounts:

- the value of the fund that the contributors would have set up had their contributions been deposited in a pension fund that generates the same rates of return as the Government and Public Employees Retirement Plan (RREGOP) entrusted to the Caisse de dépôt et placement du Québec and determine according to cost value, and
- an amount established based on the value of benefits for which it is responsible, i.e. 46% of total benefits, in keeping with generally recognized accounting policies applicable to the public sector in Canada. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid.

PPPOCS pension costs correspond to the amount of the cost of accrued benefits, changes made to the plan during the year and amortization of adjustments related to estimates resulting from actuarial gains or losses.

The pension cost is evaluated according to the projected benefit method prorated on service and the most probable assumptions determined by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

4. GOVERNMENT COMMITMENTS VIS-À-VIS THE PLAN (cont'd)

Change in the liability recorded in the Government's financial statements

	2003	2002
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	618 338	596 648
Increase		
Contributions recovered (reimbursed)	(4 657)	7 551
Pension costs		
Current service	3 200	
Changes made to the PPPOCS	7 997	6 800
Past service	105	105
Interest	4 191	30 872
	10 836	45 328
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	23 987	23 638
Net increase (decrease) for the year	(13 151)	21 690
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	605 187	618 338
Estimated liability recorded as at December 31	622 044	611 798

The Financial Administration Act (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (March 31, 2003: \$50 266 billion). At December 31, 2003, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$11 739 billion, \$5 273 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$774 million for the Pension Plan of Management Personnel.

Financing the plan

In keeping with the Act respecting the Pension Plan for Peace Officers in Correctional Services, CARRA actuaries must conduct an actuarial valuation every three years with respect to financing the PPPOCS. In this valuation, the actuaries take legislative provisions and collective agreements into account by using the valuation method the parties agree to and determine the employee and employer contribution rates. Consequently, from the beginning of the PPPOCS, CARRA has presented the Government's commitments to financing this plan as the fund it would have created, had these contributions, established on the same bases as those used to determine the employee contribution funds of the Government and Public Employees Retirement Plan entrusted to the Caisse de dépôt et placement du Québec and determined in keeping with the cost exposure.

However, the Act does not oblige the Government to contribute to the PPPOCS. The value of this fund was estimated at \$732 715 000 as at December 31, 2003.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES
NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

4. GOVERNMENT COMMITMENTS VIS-À-VIS THE PLAN (cont'd)
Financing the plan (cont'd)

However, in its consolidated financial statements for the year ended as at March 31, 2003, the Government does not recognize having commitments to the PPPOCS on the basis of sharing the annual contribution for financing. According to its interpretation of the legislative provisions of the PPPOCS, the Government's commitment the plan includes 46% of total benefits determined using accounting policies, in keeping with the recommendations of the Canadian Institute of Chartered Accountants. Consequently, the pre-recorded contribution representing the difference between the fund the parties would have created, paid they capitalized their share and the liability recorded in the Government's financial statements is no longer presented in the notes to the financial statements since the fiscal year ended March 31, 1998. However, these notes contain information concerning the various actuarial valuations. The Auditor General of Québec issued a restriction in his report, to the effect that the Government does not clearly acknowledge having made commitments to finance the plan, while recognizing that its financial statements correctly present the liability, net debt and surplus for the fiscal year ended March 31, 2003.

Change in the fund the parties would have created

	2003			2002
	Employee portion	Government portion	Total	Total
Opening balance	389 092	323 951	713 043	767 454
Increase				
Employee contributions and other amounts cashed	802	159	961	1 480
Additional employee contributions	2 741		2 741	2 584
Gouvernement du Québec contributions				
Current service		1 621	1 621	1 162
Interest	21 676	18 734	40 410	(18 059)
	<u>414 311</u>	<u>344 465</u>	<u>758 776</u>	<u>754 621</u>
Decrease				
Payment of benefits to contributors	14 274	11 117	25 391	23 840
Reimbursement of excess employee contributions collected in 2000 and 2001				9 124
Adjustment of previous Government contributions for reimbursement of excess employees contributions collected				8 359
Administrative expenses		670	670	255
Closing balance	<u>400 037</u>	<u>332 678</u>	<u>732 715</u>	<u>713 043</u>

The contributors' portion includes \$9 240 000 at December 31, 2003 (\$7 270 000 at December 31, 2002) for funding additional benefits.

5. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the PPPOCS administrator.

The assumptions used by CARRA are those deemed the most probable by its actuaries in the context of the actuarial valuation of the RREGOP prepared on the basis of data as at December 31, 1999 and presented to the pension committee on November 7, 2001. Changes were made to certain assumptions to take participant profiles and specific PPPOCS provisions into account. The short-term economic assumptions take into account the data known the date the valuation is tabled.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES
NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

5. PENSION OBLIGATIONS (cont'd)

CARRA actuaries established the actuarial valuation of accrued benefits at \$465 454 000 as at December 31, 2001 and estimated it at \$532 269 000 as at December 31, 2003.

Change in pension obligations

	2003	2002
Actuarial present value of accrued pension benefits - beginning of year	467 906	436 398
Increase		
Changes to the PPPOCS	15 007	6 944
Actuarial loss	22 990	
Interest	36 758	31 240
Benefits accrued	17 405	17 126
	92 160	55 310
Decrease		
Changes in actuarial assumptions	1 314	
Corrections to participant data	2 167	
Benefits paid	24 316	23 802
	27 797	23 802
Net increase for the year	64 363	31 508
Actuarial present value of accrued pension benefits - end of year	532 269	467 906

The changes made to the PPPOCS include an amount of \$12 100 000 as at December 31, 2003 for supplemental benefits.

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Valuation for accounting purposes	Valuation for funding purpose
Inflation	4.00 %	2.90 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	0.60

The medium-term rates represent the average rates for the period 2002 to 2010, while the long-term rates represent the rates used as of 2011. The assumption related to yield is determined by presuming that, if the PPPOCS were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousands of dollars)

5. PENSION OBLIGATIONS (cont'd)**Obligations for capitalization purposes**

Employee contributions paid into the Consolidated Revenue Fund to finance the benefits for which they are responsible are determined using different actuarial methods and assumptions than those required according to generally accepted accounting principles in Canada for presenting the actuarial obligation in the financial statements.

In fact, since the creation of the PPPOCS, the method used by parties of interest to determine employee contribution rates is the overall attained-age actuarial cost method, free of assets. In keeping with this method, employee contributions are adjusted based on the assets created so as to ensure future payment of the portion of the benefits for which they are responsible, both for service up to the date of valuation and service after this date by contributors who were employed on the date of valuation. Consequently, the value of actuarial obligations corresponds to the value of the assets created and there can be no deficit or surplus assets.

For capitalization purposes, the value of actuarial was \$732 715 000 at December 31, 2003, which corresponds to the fund the parties would have created.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Pension Plan for Peace Officers in Correctional Services according to the contributors' profile as at December 31, 2001 in order to determine the value of the obligations resulting from the Plan and to be recorded in the financial statement. This valuation revealed that, at that date, the value was \$465 454 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES AT DECEMBER 31, 2001, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENT

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, February 18, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of contributions and benefits of the Pension Plan of Peace Officers in Correctional Services for the year ended December 31, 2003. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statement is free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of this plan for the year ended December 31, 2003, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 19, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. R-10)
PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
NET ASSETS AVAILABLE FOR BENEFITS
as at December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)	<u>124 329</u>	<u>110 115</u>
Accounts receivables		
Employee contributions	73	71
Amounts receivable for past service	<u>177</u>	<u>206</u>
	<u>250</u>	<u>277</u>
	124 579	110 392
LIABILITIES		
Pensions and administrative expenses payable	<u>5</u>	<u>679</u>
NET ASSETS AVAILABLE FOR BENEFITS (Note 7)	<u><u>124 574</u></u>	<u><u>109 713</u></u>

GOVERNMENT COMMITMENTS VIS-À-VIS THE PLAN (Note 6)

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
 THE GOUVERNEMENT DU QUÉBEC
 CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
 for the year ended December 31, 2003
 (in thousands of dollars)

	<u>2003</u>	<u>2002</u>
INCREASE IN ASSETS		
Employee contributions, including contributions for past service	933	921
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 8)	4 761	4 926
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 8)	<u>11 336</u> 17 030	<u>5 847</u>
Amounts received from the Gouvernement du Québec to pay administrative expenses	<u>31</u>	<u>22</u>
	 17 061	 5 869
DECREASE IN ASSETS		
Benefits paid		
Pensions	1 964	1 763
Contribution refunds and transfers, including interest	205	109
Administrative expenses	31	22
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 8)	<u>17 257</u>	<u>17 257</u>
	 2 200	 19 151
NET INCREASE (DECREASE) FOR THE YEAR	14 861	(13 282)
NET ASSETS AVAILABLE FOR BENEFITS – BEGINNING OF YEAR	<u>109 713</u>	<u>122 995</u>
NET ASSETS AVAILABLE FOR BENEFITS – END OF YEAR	<u>124 574</u>	<u>109 713</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS
December 31, 2003
(in thousands of dollars)

1. DESCRIPTION OF THE PLAN

The following description of the Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec is given as a matter of information. To obtain more complete information concerning this plan, please consult Orders-in-Council 429-93 and 430-93 of the Gouvernement du Québec.

a) General information

The Plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to federal employees transferred to the Gouvernement du Québec to administer programs related to immigration and the goods and services tax. The plan, which was sanctioned by the Gouvernement du Québec by virtue of Order-in-Council 430-93 of March 31, 1993, came into force on January 1, 1992.

b) Funding

Benefits are funded by the contributors according to the contribution rate established by Order-in-Council 430-93, by the sums transferred from the federal government and by the Government du Québec, which assumes the remaining obligations related to benefits.

Administrative expenses for the plan are assumed by the Government du Québec.

c) Retirement benefits

Contributors are entitled to benefits at age 60 if they have five or more years' pensionable service, or at age 55 if they have 30 or more years' pensionable service.

They are entitled to retirement with an actuarial reduction at age 50, if they have 25 years' service.

The pension is calculated according to the average pensionable salary for the six consecutive best-paid years, multiplied by 2% per year of service. The pension is reduced beginning at age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Disability pension

The Pension Plan for Peace Officers in Correctional Services provides for payment of a disability pension to an employee who has been disabled. The pension is calculated as a regular pension according to the number of years of pensionable service accumulated to the plan.

e) Death benefits

Upon the death of a person who had at least five years of service, or who was collecting a pension, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received without counting the reduction resulting from coordination with the Québec Pension Plan. Each dependent child is eligible to receive a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension.

If, at the time of death, the contributor had less than five years' service, the spouse, or heirs are entitled to reimbursement of the contributions plus interest.

f) Severance benefits

Persons who cease to contribute to the Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec before being eligible to receive an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than five years' pensionable service. If they have more than five years' pensionable service under this plan, they are entitled to an indexed deferred pension payable at age 60.

g) Indexation of benefits

Pension benefits under this plan are fully indexed to the cost of living increase.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

2. ACCOUNTING POLICIES

These financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in the individual fund of the Caisse de dépôt et placement du Québec are recorded at fair value, which is established on the basis of the fair value of units, as determined by the Caisse de dépôt et placement du Québec.

The investments of this individual fund are composed primarily of participating units in individual Caisse de dépôt et placement du Québec portfolios. The net gains on the sale of investments earned by these individual portfolios, which are not distributed to the individual fund, are included in the net assets of individual portfolios. These revenues are added to the cost of participation deposits.

3. CAPITALIZATION POLICY

The employee contribution for the fiscal year is 5.2% of pensionable earnings, which exceeds the personal exemption under the Act respecting the Québec Pension Plan (R.S.Q., c. R-9) to the maximum pensionable earnings within the meaning of the same Act, and 7.5% of the remaining pensionable earnings. However, when the employee reaches 35 years of service, his/her contribution is 1% of the total wages.

Employee contributions and amounts transferred from the federal government are deposited with the Caisse de dépôt et placement du Québec. Under the Order-in-Council, the Government du Québec is not obliged to contribute to the plan.

The amounts required to pay all benefits are taken from the funds entrusted to the Caisse de dépôt et placement du Québec. When these funds are empty, they are taken from the Consolidated Revenue Fund.

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2003	2002
Participation deposits in the individual fund – at fair value (cost 2003: 142 574; 2002: 138 605) *	124 220	109 909
Demand deposits in the General Fund (advances)	(104)	(68)
Revenue receivable from the individual fund	213	274
	<u>124 329</u>	<u>110 115</u>
* Cost of units	121 181	119 569
Cumulated gains realized, but not yet distributed by individual portfolios	<u>21 393</u>	<u>19 036</u>
	<u>142 574</u>	<u>138 605</u>

5. FINANCIAL INSTRUMENTS

The fair value of accounts payable, cash and liabilities is equal to their book value given that they mature in the near future.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

6. GOVERNMENT COMMITMENTS VIS-À-VIS THE PLAN

Under the provisions of the plan, the Government contribution equals employee contributions for the years preceding the first actuarial valuation. The Government's commitments vis-à-vis the plan correspond to these contributions plus interest calculated using the annual rate of return of the unionizable employees fund of the Government and Public Employees Retirement Plan entrusted to the Caisse de dépôt et placement du Québec. This annual yield is determined according to the cost exposure. Commitments are estimated \$7 617 000 as at December 31, 2003 (2002: \$7 238 000).

7. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation of the Government and Public Employees Retirement Plan conducted on the basis of data as at December 31, 1999 and tabled before the retirement committee on November 7, 2001. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$62 836 427 at December 31, 2000 and \$78 758 000 at December 31, 2003.

Change in pension obligations

	2003	2002
Actuarial present value of accrued pension benefits – beginning of year	73 484	68 087
Increase		
Change in actuarial assumptions		111
Actuarial loss		321
Interest	4 971	4 628
Benefits accrued	2 472	2 445
	7 443	7 505
Decrease		
Corrections to participant data		236
Benefits paid	2 169	1 872
	2 169	2 108
Net increase for the year	5 274	5 397
Actuarial present value of accrued pension benefits – end of year	78 758	73 484

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

7. PENSION OBLIGATIONS (cont'd)**Significant economic assumptions**

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Valuation for accounting purposes	Valuation for funding purpose
Inflation	4.00 %	2.75 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	0.90

The medium-term rates represent the average rates for the period 2001 to 2010, while the long-term rates represent the rates used as of 2011.

8. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2003	2002
Revenue from participation deposits in the individual fund	4 762	4 939
Interest on demand deposits in the General Fund	(1)	(13)
	<u>4 761</u>	<u>4 926</u>
Change in fair value		
Losses realized on the sale of investments	(1 384)	(396)
(Gains) losses realized by individual portfolios	2 379	(7 987)
Unrealized gains (losses)	<u>10 341</u>	<u>(8 874)</u>
	<u>11 336</u>	<u>(17 257)</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec according to the contributors' profile as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan and to be recorded in the financial statement. This valuation revealed that, at that date, the value was \$62 836 427.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR
FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH THE GOUVERNEMENT DU QUÉBEC AT
DECEMBER 31, 2000, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS
RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENT**

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, September 30, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of net assets available for benefits of the Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec as at December 31, 2003 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2003 and the changes in this position for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 19, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. R-10)

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

(R.S.Q., c. R-9.3)

NET ASSETS AVAILABLE FOR BENEFITS

as at December 31, 2003

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments		
Fund entrusted to the Caisse de dépôt et placement du Québec (Note 4)	98 115	89 120
Accounts receivable		
Employee contributions	308	104
Employer contributions	3 723	723
Amounts receivable from beneficiaries	40	
Amounts receivable from the Pension Plan of Elected Municipal Officers (Note 5)	2 595	
Amounts receivable from municipalities and agencies	8 400	8 500
	<u>15 066</u>	<u>9 327</u>
Cash on hand	60	27
	<u>113 241</u>	<u>98 474</u>
LIABILITIES		
Contribution refunds and pensions payable	363	1 780
Administrative expenses payable	184	100
Amounts payable to the Pension Plan of Elected Municipal Officers (Note 5)	2 595	
Amounts payable to municipalities and agencies	8 400	8 500
	<u>11 542</u>	<u>10 380</u>
NET ASSETS AVAILABLE FOR BENEFITS (Note 7)	<u>101 699</u>	<u>88 094</u>

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended December 31, 2003

(in thousands of dollars)

	2003		2002	
INCREASE IN NET ASSETS				
Employee contributions, including contributions for past service		1 691		1 536
Employer contributions, including contributions for past service				
Pension Plan of Elected Municipal Officers	5 707		5 268	
Supplemental Pension Plan for Elected Municipal Officials	<u>2 266</u>	7 973	<u>1 589</u>	6 857
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 8)				
Pension Plan of Elected Municipal Officers	3 840		3 987	
Supplemental Pension Plan for Elected Municipal Officials	<u>(37)</u>	3 803	<u>30</u>	4 017
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 8)				
Pension Plan of Elected Municipal Officers		8 849		
Other interest income		<u>3</u>		<u>11</u>
		<u>22 319</u>		<u>12 421</u>
DECREASE IN NET ASSETS				
Benefits paid				
Pensions				
Pension Plan of Elected Municipal Officers	6 185		5 264	
Supplemental Pension Plan for Elected Municipal Officials	<u>2 017</u>	8 202	<u>1 606</u>	6 870
Contribution refunds and transfers, including interest				
Pension Plan of Elected Municipal Officers	176		236	
Supplemental Pension Plan for Elected Municipal Officials	<u>6</u>	182		236
Administrative expenses				
Pension Plan of Elected Municipal Officers	124		109	
Supplemental Pension Plan for Elected Municipal Officials	<u>206</u>	330	<u>13</u>	122
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 8)				
Pension Plan of Elected Municipal Officers				<u>13 820</u>
		<u>8 714</u>		<u>21 048</u>
NET INCREASE (DECREASE) FOR THE YEAR		13 605		(8 627)
NET ASSETS AVAILABLE FOR BENEFITS - BEGINNING OF YEAR		<u>88 094</u>		<u>96 721</u>
NET ASSETS AVAILABLE FOR BENEFITS - END OF YEAR		<u>101 699</u>		<u>88 094</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Pension Plan of Elected Municipal Officers Supplemental Pension Plan for Elected Municipal Officials

The following description is given as a matter of information. To obtain more complete information concerning these plans, please consult the Act respecting the Pension Plan of Elected Municipal Officers (R.S.Q., c. R-9.3) and Order-in-Council 1440-2002 of the Gouvernement du Québec.

a) General information

The Pension Plan of Elected Municipal Officers (PPEMO) and Supplemental Pension Plan for Elected Municipal Officials (SPPEMO) are administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). They are defined-benefit pension plans offered to members of a municipal council that passes a by-law to join the plan.

The SPPEMO, which has been in effect since January 1, 2002, applies to elected municipal officials in office at December 31, 2000 and to persons entitled to a PPEMO pension at this date.

b) Funding

PPEMO benefits are funded by contributors and municipalities according to the contribution rates stipulated in the Act and the related regulations.

SPPEMO benefits are funded by the municipalities subject to the PPEMO at December 31, 2000.

The amounts needed to cover the administrative expenses for the fiscal year are assumed by municipalities.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at age 69 or, if they are no longer members of a municipal council and have at least two years' pensionable service, at age 60.

Contributors are entitled to an actuarially reduced pension at age 50 and if they have at least two years' pensionable service.

For each year of service prior to January 1, 1992, contributors are entitled to a pension credit equal to 3.5% of pensionable earnings less 0.7% of the lesser of these earnings or the maximum admissible earnings under the Act respecting the Québec Pension Plan and, for each year of service subsequent to December 31, 1991, to a pension credit equal to 2% of the pensionable service. This pension credit is fully indexed to the increase in the cost of living every year until the contributor retires.

Those persons to whom the SPPEMO applies acquire the right to a supplemental benefit the same date they become eligible for a PPEMO retirement pension. The benefits for contributors in office at December 31, 2000 correspond to the surplus of 3.75% of pensionable earnings on the pension credit calculated for the PPEMO for each year prior to January 1, 2002. These amounts are indexed the same way as PPEMO pension credits.

For retirees and surviving spouses, the supplemental pension corresponds to 24.1% of the annual pension payable on December 31, 2001. For contributors not working at December 31, 2000, the supplemental benefit corresponds to 24.1% of the annual pension payable the date the benefit is paid.

d) Death benefits

If the person dies while contributing to the PPEMO, is eligible for a retirement pension without deduction or receives a retirement pension, his spouse is entitled to a pension of 60% of the pension the person would have been entitled to receive or was receiving. If the person has no spouse, the contributions with interest are reimbursed to the heirs, minus any benefits paid by the PPEMO.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

Pension Plan of Elected Municipal Officers

Supplemental Pension Plan for Elected Municipal Officials (cont'd)

d) Death benefits (cont'd)

If the person dies before being eligible for a retirement pension without an actuarial reduction and has at least two years of service, contributions with interest are reimbursed to the heirs. If the person has two years of service or more, his or her heirs are entitled to the actuarial valuation of the pension acquired under the PPEMO or SPPEMO.

e) Severance benefits

A person who stops contributing to the PPEMO before being eligible for a retirement pension is eligible for reimbursement of his or her contributions plus interest. If the person is under age 50 and has from two to seven years of service, he or she can choose between having his or her contributions reimbursed with interest or an indexed, deferred pension payable at age 60. If the person is under age 50 and has at least eight years of service, he or she is eligible for an indexed, deferred pension payable at age 60.

The deferred pension includes the amounts of pension credits acquired under the PPEMO or SPPEMO.

f) Indexation of benefits

Pension benefits under the PPEMO are partially indexed to the cost of living increase.

2. ACCOUNTING POLICIES

These financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. They include amounts based on best estimates and judgements.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in the individual fund of the Caisse de dépôt et placement du Québec are recorded at fair value, which is established on the basis of the fair value of units, as determined by the Caisse de dépôt et placement du Québec.

The investments of this individual fund are composed primarily of participating units in individual Caisse de dépôt et placement du Québec portfolios. The net gains on the sale of investments earned by these individual portfolios, which are not distributed to individual funds, are included in the net assets of individual portfolios. These revenues are added to the cost of participation deposits.

3. CAPITALIZATION POLICY

Following the adoption on February 11, 2004 of Order-in-Council 103-2004 amending the Regulation respecting the application of the Act respecting the Pension Plan of Elected Municipal Officers, the PPEMO employee contribution was set at 5.55% of pensionable wages retroactive to January 1, 2003.

The municipality, intermunicipal board, agent or supramunicipal agency pays a provisional contribution calculated using a factor determined by a Gouvernement du Québec regulation. For fiscal 2003, the factor used to establish this provisional contribution was 3.37 times the employee contribution.

Employee and employer contributions are deposited in the Caisse de dépôt et placement du Québec and the amounts required to benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousands of dollars)

3. CAPITALIZATION POLICY (cont'd)

The PPEMO is not capitalized and the municipalities' contribution corresponds to the benefits and the administrative fees paid by this plan during the fiscal year.

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2003	2002
Participation deposits in the individual fund – at fair value (cost 2003: 113 154; 2002: 111 680) *	97 907	88 386
Demand deposits in the General Fund	8	508
Revenue receivable from individual fund	200	226
	<u>98 115</u>	<u>89 120</u>
 * Cost of units	 95 031	 95 169
Cumulated gains realized, but not yet distributed by individual portfolios	<u>18 123</u>	<u>16 511</u>
	<u>113 154</u>	<u>111 680</u>

5. AMOUNTS RECEIVABLE FROM THE SUPPLEMENTAL PENSION PLAN OF ELECTED MUNICIPAL OFFICERS

These amounts bear interest according to the rate for demand deposits at the Caisse de dépôt et placement du Québec.

6. FINANCIAL INSTRUMENTS

The fair value of accounts payable, cash and liabilities is equal to their book value given that they mature in the near future.

7. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the PPEMO administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation of the PPEMO carried out in April 2002 for the purposes of funding the plan using data as at December 31, 2000. The short-term economic assumptions reflect the data known when the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits under the PPEMO \$94 289 000 at December 31, 2000 and under the SPPEMO at \$43 150 000 and estimated the total value of accrued benefits for these plans at \$158 162 000 at December 31, 2003.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousands of dollars)

7. PENSION OBLIGATIONS (cont'd)**Changes in pension obligations**

	2003	2002
Actuarial present value of accrued pension benefits - beginning of year	151 500	100 577
Increase		
Accrued benefits related to the SPPEMO at January 1, 2002		43 150
Interest	10 110	9 639
Benefits accrued	4 936	5 240
	15 046	58 029
Decrease		
Benefits paid	8 384	7 106
Net increase for the year	6 662	50 923
Actuarial present value of accrued pension benefits - end of year	158 162	151 500
Composed of:		
PPEMO	112 854	107 098
SPPEMO	45 308	44 402
	158 162	151 500

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Valuation for accounting purposes	Valuation for funding purpose
Inflation	4.00 %	2.75 %
Rate of return net of inflation	4.75	4.75
Salary escalation net of inflation	0.00	0.00

The medium-term rates represent the average rates for the period 2001 to 2010, while the long-term rates represent the rates used as of 2011.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

8. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	<u>2003</u>	<u>2002</u>
Revenue from participation deposits in the individual fund	3 802	3 935
Interest on demand deposits in the General Fund	<u>1</u>	<u>82</u>
	<u>3 803</u>	<u>4 017</u>
	<u>2003</u>	<u>2002</u>
Change in fair value		
Losses realized on the sale of investments	(1 063)	(6)
Gains (losses) realized by individual portfolios	1 865	(6 424)
Unrealized gains (losses)	<u>8 047</u>	<u>(7 390)</u>
	<u>8 849</u>	<u>(13 820)</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of Elected Municipal Officers according to the contributors' profile as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$94 289 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE PENSION PLAN OF ELECTED MUNICIPAL OFFICERS AT DECEMBER 31, 2000, CARRIED OUT FOR
THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL
STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, April 4, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Supplemental Pension Plan for Elected Municipal Officials according to the contributors' profile as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at December 31, 2001, this value was \$43 150 000.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE SUPPLEMENTAL PENSION PLAN FOR ELECTED MUNICIPAL OFFICIALS AT DECEMBER 31, 2001,
CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN
IN THE FINANCIAL STATEMENTS**

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, March 14, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of net assets available for benefits of the Pension Plans of Elected Municipal Officers as at December 31, 2003 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of these plans as at December 31, 2003 and the changes in this position for the year then ended, in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 16, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. R-10)

RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

(R.S.Q., c. R-16)

NET ASSETS AVAILABLE FOR BENEFITS

as at December 31, 2003

(in thousand of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments		
Fund entrusted to the Caisse de dépôt et placement du Québec (Note 3)	10 982	10 780
LIABILITIES		
Pensions payable	<u>47</u>	<u>198</u>
NET ASSETS AVAILABLE POUR FOR BENEFITS (Note 5)	<u><u>10 935</u></u>	<u><u>10 582</u></u>

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES****CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

for the year ended December 31, 2003

(in thousand of dollars)

	<u>2003</u>	<u>2002</u>
INCREASE IN ASSETS		
Revenue from funds entrusted to the Caisse de dépôts et placement du Québec (Note 6)	434	513
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 6)	<u>1 135</u>	<u> </u>
	<u>1 569</u>	<u>513</u>
DECREASE IN ASSETS		
Benefits paid		
Pensions	1 184	1 668
Contribution refunds and transfers, including interest	32	136
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 6)	<u> </u>	<u>1 471</u>
	<u>1 216</u>	<u>3 275</u>
NET INCREASE (DECREASE) FOR THE YEAR	353	(2 762)
NET ASSETS AVAILABLE FOR BENEFITS		
– BEGINNING OF YEAR	<u>10 582</u>	<u>13 344</u>
NET ASSETS AVAILABLE FOR BENEFITS		
– END OF YEAR	<u><u>10 935</u></u>	<u><u>10 582</u></u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

(in thousand of dollars)

1. DESCRIPTION OF THE PLAN

The following description of the Retirement Plan for the Mayors and Councillors of Municipalities is given as a matter of information. To obtain more complete information concerning this plan, please consult the Act respecting retirement plans for the mayors and councillors of municipalities (R.S.Q., c. R-16).

a) General information

The Plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to members of a municipal council that passes a by-law to join the plan.

The right to participate in the Retirement Plan for the Mayors and Councillors of Municipalities was abolished with the coming into force of the Pension Plan of Elected Municipal Officers (R.S.Q., c. R-9.3) on January 1, 1989.

b) Funding

Benefits are taken from the pension fund created for the plan. When there are no more beneficiaries, there is likely to be a surplus or a deficit. Since the Act governing the plan does not specify to whom the surplus at the end of the plan belongs or who will assume payment of the benefit until it expires, the parties concerned (government, employers and contributors) will eventually have to rule on this matter.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

c) Retirement benefits

Contributors were entitled to benefits if they had accumulated at least eight years' pensionable service. The pension is calculated on the basis of the amount of employee and employer contributions, plus interest, which have accumulated in the contributor's account. This pension is payable at age 60 and is not indexed to the cost of living increase.

d) Death benefits

Upon the death of a person who had been receiving a pension for fewer than 15 years, the surviving spouse or heirs is or are entitled to receive the pension until the 15-year period expires or, on request, an amount equal to the pension's present value.

If a person dies before beginning to receive his retirement pension, his spouse or heirs are entitled to reimbursement of the amounts accumulated in his account.

2. ACCOUNTING POLICIES

These financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. They include amounts based on best estimates and judgements.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in the individual fund of the Caisse de dépôt et placement du Québec are recorded at fair value, which is established on the basis of the fair value of units, as determined by the Caisse de dépôt et placement du Québec.

The investments of this individual fund are composed primarily of participating units in individual Caisse de dépôt et placement du Québec portfolios. The net gains on the sale of investments earned by these individual portfolios, which are not distributed to the individual fund, are included in the net assets of individual portfolios. These revenues are added to the cost of participation deposits.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousand of dollars)

3. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	<u>2003</u>	<u>2002</u>
Participation deposits in the individual fund – at fair value (cost 2003: 12 667; 2002: 13 586) *	10 960	10 752
Revenue receivable from the individual fund	<u>22</u>	<u>28</u>
	<u>10 982</u>	<u>10 780</u>
 * Cost of units	 10 141	 11 064
Cumulated gains realized, but not yet distributed by individual portfolios	<u>2 526</u>	<u>2 522</u>
	<u>12 667</u>	<u>13 586</u>

4. FINANCIAL INSTRUMENTS

The fair value of accounts payable, cash and liabilities is equal to their book value given that they mature in the near future.

5. PENSION OBLIGATIONS

In keeping with the accounting principles generally recognized in Canada, obligations related to benefits were determined using the projected benefit method prorated on services and the most probable hypotheses according to the Plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation for the Government and Public Employees Retirement Plan conducted on the basis of data as at December 31, 1999 and tabled before the retirement committee on November 7, 2001. The assumptions required concern the age at which the retirement pension of non-working contributors is paid, the mortality rate of non-working contributors and retirees and asset yield. The average rate for the years 2003 to 2010 is 7.65% while the long-term rate is 8.75% as of 2011.

CARRA actuaries established the actuarial value of accrued benefits at \$13 860 000 at December 31, 2002 and estimated it at \$13 539 000 as at December 31, 2003.

Changes in pension obligations

	<u>2003</u>	<u>2002</u>
Actuarial present value of accrued pension benefits - beginning of year	<u>13 860</u>	<u>10 516</u>
Increase		
Actuarial loss		4 051
Change in actuarial methods and assumptions		414
Interest	<u>895</u>	<u>683</u>
	895	5 148
Decrease		
Benefits paid	<u>1 216</u>	<u>1 804</u>
Net increase (decrease) for the year	<u>(321)</u>	<u>3 344</u>
Actuarial present value of accrued pension benefits - end of year	<u>13 539</u>	<u>13 860</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousand of dollars)

6. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	<u>2003</u>	<u>2002</u>
Net investment income from the individual fund	<u>434</u>	<u>513</u>
Change in fair value		
Gains (Losses) realized on the sale of investments	(209)	4
Gains (Losses) realized by individual portfolios	217	(812)
Unrealized gains (losses)	<u>1 127</u>	<u>(663)</u>
	<u>1 135</u>	<u>(1 471)</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Retirement Plan for the Mayors and Councillors of Municipalities according to the contributors' profile as at December 31, 2002 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$13 860 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES AT
DECEMBER 31, 2002, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS
RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, March 11, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of net assets available for benefits of the Retirement Plan for the Mayors and Councillors of Municipalities as at December 31, 2003 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2003 and the changes in this position for the year then ended, in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 16, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. R-10)
RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

NET ASSETS AVAILABLE FOR BENEFITS
as at December 31, 2003
(in thousand of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)	57 684	52 170
Accounts receivable		
Employee contributions	11	9
Employer contributions	5	3
	16	12
	<u>57 700</u>	<u>52 182</u>
LIABILITIES		
Excess employee contributions to be refunded	2	2
Pensions payable	32	34
	<u>2</u>	<u>34</u>
NET ASSETS AVAILABLE FOR BENEFITS (Note 6)	<u>57 698</u>	<u>52 148</u>

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

for the year ended December 31, 2003

(in thousand of dollars)

	<u>2003</u>	<u>2002</u>
INCREASE IN ASSETS		
Employee contributions, including contributions for past service	32	32
Employer contributions, including contributions for past service	21	33
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	2 248	2 375
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	<u>5 489</u>	<u> </u>
	<u>7 790</u>	<u>2 440</u>
DECREASE IN ASSETS		
Benefits paid		
Pensions	2 218	2 222
Transfers, including interest		96
Contribution refunds, including interest	22	43
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	<u> </u>	<u>7 904</u>
	<u>2 240</u>	<u>10 265</u>
NET INCREASE (DECREASE) FOR THE YEAR	5 550	(7 825)
NET ASSETS AVAILABLE FOR BENEFITS		
– BEGINNING OF YEAR	<u>52 148</u>	<u>59 973</u>
NET ASSETS AVAILABLE FOR BENEFITS		
– END OF YEAR	<u><u>57 698</u></u>	<u><u>52 148</u></u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

(in thousand of dollars)

1. DESCRIPTION OF THE PLAN

The following description of the Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges is given as a matter of information. To obtain more complete information concerning this plan, please consult Orders-in-Council 2497-81 and 397-78 of the Gouvernement du Québec.

a) General information

The Plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to certain active employees of the Centre hospitalier Côte-des-Neiges and certain other hospital centres.

b) Funding

Benefits are funded by contributors according to the contribution rates set by Orders-in-Council 2497-81 and 397-78 and hospital centres, which assume the remainder of the pension benefit obligations.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at age 60 if they have five or more years' pensionable service or, if they have 30 or more years' pensionable service, at age 55.

Contributors are entitled to an actuarially reduced pension at age 50 if they have 25 years' pensionable service.

The pension is calculated by multiplying the average pensionable salary for the six consecutive best-paid years by 2% per year of service (maximum 35 years' service). The pension is reduced beginning at age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Disability pension

The Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges provides for payment of a disability pension to an employee who has been disabled. This pension is calculated like a regular pension based on the number of years of service accumulated under the Plan.

e) Death benefits

If a person dies with less than five years of service or when receiving a retirement pension, his or her spouse is entitled to a pension of 50% of the amount that the person entitled to receive the pension or receiving it was entitled to, without taking into account the reduction resulting from coordination with the Québec Pension Plan. Each dependent child is eligible to receive a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension.

If the person dies and has less than five years of service, the spouse, or if there is no spouse, the heirs, are entitled to reimbursement of the contributions with interest.

f) Severance benefits

Persons who cease to contribute to the plan before being eligible for an immediate pension are entitled to a deferred indexed pension at age 60 if they have at least 10 years' pensionable service and are aged 45 or over; otherwise, they can choose between a deferred pension or the refund of contributions.

g) Indexation of benefits

Pension benefits under this plan are fully indexed to the cost of living increase.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousand of dollars)

2. ACCOUNTING POLICIES

These financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. They include amounts based on best estimates and judgements.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in the individual fund of the Caisse de dépôt et placement du Québec are recorded at fair value, which is established on the basis of the fair value of units, as determined by the Caisse de dépôt et placement du Québec.

The investments of the individual fund are composed primarily of participating units in individual Caisse de dépôt et placement du Québec portfolios. The net gains on the sale of investments earned by these individual portfolios, which are not distributed to the individual fund, are included in the net assets of individual portfolios. These revenues are added to the cost of participation deposits.

3. CAPITALIZATION POLICY

The employee contribution is 7.6% of the pensionable wages less the contributions paid under the Act respecting the Québec Pension Plan (R.S.Q., c. R-9). The hospital centre contribution for current service corresponds to 81% of the employee contribution.

Employee and employer contributions are deposited in the Caisse de dépôt et placement du Québec and the amounts required for benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec.

Net assets available for benefit service is more than sufficient to cover all future plan benefits. The parties concerned will have to examine the plan's funding, given the surplus assets.

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2003	2002
Participation deposits in the individual fund – at fair value (cost- 2003: 66 115; 2002: 65 622) *	57 584	52 036
Demand deposits in the General Fund	1	4
Revenue receivable from the individual fund	99	130
	<u>57 684</u>	<u>52 170</u>
* Cost of units	55 362	55 885
Cumulated gains realized, but not yet distributed by the individual portfolios	10 753	9 737
	<u>66 115</u>	<u>65 622</u>

5. FINANCIAL INSTRUMENTS

The fair value of accounts payable, excess employee contributions and pensions payable is equal to their book value given that they mature in the near future.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousand of dollars)

6. PENSION OBLIGATIONS

In keeping with the accounting principles generally recognized in Canada, obligations related to benefits were determined using the projected benefit method prorated on services and the most probable hypotheses according to the Plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuations conducted using data from the Government and Public Employees Retirement Plan as at December 31, 1999 and tabled before the retirement committee on November 7, 2001. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$30 728 006 as at December 31, 2000 and estimated it at \$30 790 000 as at December 31, 2003.

Changes in pension obligations

	2003	2002
Actuarial present value of accrued pension benefits – beginning of year	30 858	36 582
Increase		
Corrections to participant data		10
Interest	2 012	2 021
Benefits accrued	160	160
	2 172	2 191
Decrease		
Actuarial gain		2 094
Change in actuarial assumptions		3 461
Benefits paid	2 240	2 360
	2 240	7 915
Net decrease for the year	68	5 724
Actuarial present value of accrued pension benefits – end of year	30 790	30 858

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Valuation for accounting purposes	Valuation for funding purpose
Inflation	4.00 %	2.75 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	0.65

The medium-term rates represent the average rates for the period 2001 to 2010, while the long-term rates represent the rates used as of 2011.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousand of dollars)

7. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	<u>2003</u>	<u>2002</u>
Net investment income from the individual fund	2 246	2 374
Interest on demand deposits in the General Fund	<u>2</u>	<u>1</u>
	<u>2 248</u>	<u>2 375</u>
Change in fair value		
Losses realized on the sale of investments	(684)	(199)
Gains (losses) realized by the individual portfolios	1 119	(3 820)
Unrealized gains (losses)	<u>5 054</u>	<u>(3 885)</u>
	<u>5 489</u>	<u>(7 904)</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Retirement Plan for Active Members of the Centre hospitalier Côte-des Neiges according to the contributors' profile as at December 31, 2002 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$30 728 006.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES
AT DECEMBER 31, 2000, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS
RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, March 24, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of net assets available for benefits of the Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges as at December 31, 2003 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2003 and changes in this position for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 16, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. R-10)
SPECIAL PENSION PLANS

NET ASSETS AVAILABLE FOR BENEFITS
as at December 31, 2003

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 3)	\$1 366 041	\$1 324 438
Cash on hand	<u>1 366 041</u>	<u>238</u> 1 324 676
LIABILITIES		
Contribution refunds	<u>4 182</u>	<u>7 380</u>
NET ASSETS AVAILABLE FOR BENEFITS (Notes 5 and 6)	<u>\$1 361 859</u>	<u>\$1 317 296</u>

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
SPECIAL PENSION PLANS
CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
 for the year ended December 31, 2003

	<u>2003</u>	<u>2002</u>
INCREASE IN ASSETS		
Employee contributions, including contributions for past service		\$1 182
Employer contributions, including contributions for past service	\$5 958	8 572
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	54 029	61 712
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	<u>139 757</u>	
	<u>199 744</u>	<u>71 466</u>
DECREASE IN ASSETS		
Benefits paid		
Pensions	155 181	150 688
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)		<u>196 164</u>
	<u>155 181</u>	<u>346 852</u>
NET INCREASE (DECREASE) FOR THE YEAR	44 563	(275 386)
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	<u>1 317 296</u>	<u>1 592 682</u>
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	<u>\$1 361 859</u>	<u>\$1 317 296</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

1. DESCRIPTION OF THE PLANS

Pension plan of the former employees of the City of Saint-Laurent

The following description of the Pension Plan of the Former Employees of the City of Saint-Laurent is given as a matter of information. To obtain more complete information concerning this plan, please consult Order-in-Council 842-82 of the Gouvernement du Québec.

a) General information

The Plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to former employees of the City of Saint-Laurent's health and social services sector who, since September 19, 1976, have been in a job covered by the Government and Public Employees Retirement Plan (RREGOP).

b) Funding

Employee and employer contributions were deposited with the Caisse de dépôt et placement du Québec and amounts required for benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

c) Death benefits

Upon the death of a beneficiary, the surviving spouse or heirs are entitled to reimbursement of the person's contributions without interest minus any benefits paid.

d) Indexation of benefits

Pension benefits under this plan are not indexed to the cost of living increase.

Pension plan of the former employees of the Town of Westmount

The following description of the Pension Plan of the Former Employees of the Town of Westmount is given as a matter of information. To obtain more complete information concerning this plan, please consult Order-in-Council 2174-84 of the Gouvernement du Québec.

a) General information

The Plan is administered by CARRA. It is a defined-benefit pension plan offered to former employees of the Town of Westmount who contributed to the general pension plan of the Town of Westmount and who were integrated into the Montreal General Hospital as of April 1, 1976.

b) Funding

Employee and employer contributions were deposited with the Caisse de dépôt et placement du Québec and amounts required for benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

c) Death benefits

If a person dies having received a retirement pension for less than five years, the surviving spouse or heirs are entitled to the pension until this five-year period expires or to the pension's current value.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003

1. DESCRIPTION OF THE PLANS (cont'd)

Pension plan of the former employees of the Town of Westmount (cont'd)

d) Indexation of benefits

Pension benefits under this plan are not indexed to the cost of living increase.

Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais

The following description of the Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais is given as a matter of information. To obtain more complete information concerning this plan, please consult Orders-in-Council 2661-76 and 40-89 of the Gouvernement du Québec.

a) General information

The Plan is administered by CARRA. It is defined-contribution pension plan.

b) Funding

Contributions are no longer paid into this plan, with the exception of employer contributions for the purpose of indexing pensions paid. Employee and employer contributions were deposited with the Caisse de dépôt et placement du Québec and amounts required for benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec.

c) Death benefits

Upon the death of a person who had been receiving a pension for fewer than 15 years, the surviving spouse or heirs is or are entitled to receive the pension until the 15-year period expires, or an amount equal to the pension's present value.

d) Indexation of benefits

Pension benefits under these plans are fully indexed to the cost of living increase.

2. ACCOUNTING POLICIES

These financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. They include amounts based on best estimates and judgements.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in the individual fund of the Caisse de dépôt et placement du Québec are recorded at fair value, which is established on the basis of the fair value of units, as determined by the Caisse de dépôt et placement du Québec.

The investments of the individual fund are composed primarily of participating units in individual Caisse de dépôt et placement du Québec portfolios. The net gains on the sale of investments earned by these individual portfolios, which are not distributed to the individual fund, are included in the net assets of individual portfolios. These revenues are added to the cost of participation deposits.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SPECIAL PENSION PLANS**

NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003

3. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2003	2002
Participation deposits in the individual fund – at fair value (cost- 2003: \$1 566 539; 2002: \$1 666 028) *	\$1 364 780	\$1 321 103
Revenue receivable from the individual fund	1 261	3 335
	<u>\$1 366 041</u>	<u>\$1 324 438</u>
 * Cost of units	 \$1 316 907	 \$1 423 312
Cumulated gains realized, but not yet distributed by the individual portfolios	<u>249 632</u>	<u>242 716</u>
	<u>\$1 566 539</u>	<u>\$1 666 028</u>

4. FINANCIAL INSTRUMENTS

The fair value of accounts payable, cash and liabilities is equal to their book value given that they mature in the near future.

5. NET ASSETS AVAILABLE FOR BENEFITS

	2003	2002
Pension Plan of the Former Employees of the City of Saint-Laurent	\$874 216	\$849 105
Pension Plan of the Former Employees of the Town of Westmount	251 089	233 920
Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais	<u>236 554</u>	<u>234 271</u>
	<u>\$1 361 859</u>	<u>\$1 317 296</u>

6. PENSION OBLIGATIONS**Valuation of pension obligations**

In keeping with the accounting principles generally recognized in Canada, obligations related to benefits were determined using the projected benefit method prorated on services and the most probable hypotheses according to the Plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuations conducted using data from the Government and Public Employees Retirement Plan as at December 31, 1999 and tabled before the retirement committee on November 7, 2001. Given that there were no longer any active participants, the assumptions required concern the mortality rate and asset yield. The average rate of return for the period 2003 to 2010 is 7.63% and is 8.75% after 2010.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003

6. PENSION OBLIGATIONS (cont'd)**Changes in pension obligations**

	2003	2002
Actuarial present value of accrued pension benefits, beginning of year	<u>\$1 299 197</u>	<u>\$1 270 366</u>
Increase		
Actuarial loss		73 837
Change in actuarial methods and assumptions		17 052
Interest	82 459	83 994
Benefits accrued	<u>82 459</u>	<u>4 636</u>
		179 519
Decrease		
Benefits paid	<u>155 181</u>	<u>150 688</u>
Net increase (decrease) for the year	<u>(72 722)</u>	<u>28 831</u>
Actuarial present value of accrued pension benefits, end of year	<u>\$1 226 475</u>	<u>\$1 299 197</u>
Composed of:		
Pension Plan of the Former Employees of the City of Saint-Laurent	\$788 609	\$836 781
Pension Plan of the Former Employees of the Town of Westmount	132 569	141 191
Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais	<u>305 297</u>	<u>321 225</u>
	<u>\$1 226 475</u>	<u>\$1 299 197</u>

7. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2003	2002
Net investment income from the individual fund	\$54 209	\$61 613
Interest on demand deposits in the General Fund		<u>99</u>
	<u>\$54 209</u>	<u>\$61 712</u>
Change in fair value		
Losses realized on the sale of investments	\$(31 182)	\$(8 967)
Gains (losses) realized by individual portfolios	27 775	(100 396)
Unrealized gains (losses)	<u>143 164</u>	<u>(86 801)</u>
	<u>\$139 757</u>	<u>\$(196 164)</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Former Employees of the City of Saint-Laurent according to the contributors' profile as at December 31, 2002 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$836 781.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE PENSION PLAN OF THE FORMER EMPLOYEES OF THE CITY OF SAINT-LAURENT AT
DECEMBER 31, 2002, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS
RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Québec, February 7, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Former Employees of the Town of Westmount according to the contributors' profile as at December 31, 2002 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$141 191.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE PENSION PLAN OF THE FORMER EMPLOYEES OF THE TOWN OF WESTMOUNT AT DECEMBER
31, 2002, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE
PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Québec, February 7, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Chairman of the Conseil de la Communauté urbaine de l'Outaouais according to the contributors' profile as at December 31, 2002 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$321 225.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE PENSION PLAN OF THE CHAIRMAN OF THE CONSEIL DE LA COMMUNAUTÉ URBAINE DE
L'OUTAOUAIS AT DECEMBER 31, 2002, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF
OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Québec, February 7, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SPECIAL PENSION PLANS****AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of net assets available for benefits of the special pension plans mentioned in Note 1 as at December 31, 2003 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of these plans as at December 31, 2003 and the changes in this position for the year then ended, in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 16, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. R-10)

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

(R.S.Q., c. C-52.1)

STATEMENT OF CONTRIBUTIONS AND BENEFITS

for the year ended December 31, 2003

(in thousands of dollars)

	2003	2002
CONTRIBUTIONS		
Employee contributions, including contributions for past service		
Pension Plan of the Members of the National Assembly	1 011	999
Interest revenue	1	1
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND	1 011	1 000
BENEFITS		
Benefits paid		
Pensions		
Pension Plan of the Members of the National Assembly	8 071	7 885
Supplement pension plan for members of the National Assembly	1 689	1 474
Special Pension	12	12
Contribution refunds and transfer including interest		
Pension Plan of the Members of the National Assembly	651	492
Administrative expenses		
Pension Plan of the Members of the National Assembly	28	23
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES	10 451	9 886

PENSION OBLIGATIONS (Note 4)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 5)**

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Pension plan of the members of the National Assembly Supplemental pension plan for members of the National Assembly Special Pension Plan

The following description is given as a matter of information. To obtain more complete information concerning these plans, please consult the following official texts:

- the Act respecting the conditions of employment and the pension plan of the Members of the National Assembly (R.S.Q., c. C-52.1);
- the Regulation respecting the supplemental pension plan of members of the National Assembly;
- the Act granting a pension to the widow of Pierre Laporte (Q.S., 1970, c. 6).

a) General information

The Pension Plan of the Members of the National Assembly (PPMNA) and the Supplemental pension plan of members of the National Assembly (SPPMNA) are administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). They are defined-benefit pension plans offered to the Members of the National Assembly. The special pension constitutes the benefits granted to the widow of Pierre Laporte.

b) Funding

For the PPMNA, benefits are funded by participants according to the contribution rate set by the Act and by the Government, which assumes the remaining benefit obligations.

For the SPPMNA and the special pension, benefits are entirely funded by the Government.

c) Retirement benefits

A contributor who ceases to be a Member of the National Assembly is entitled to benefits without any actuarial reduction at age 60, or to an actuarially reduced pension if he or she is under 60. However, this pension is payable, at the latest, on December 31 of the year in which the contributor turns 69, even if he or she is still a Member of the National Assembly.

The pension is equal to total pension credits calculated annually by multiplying the admissible indemnity received by 1.75%, without exceeding 25 years' participation. These pension credits are indexed to the cost of living increase up until the time the contributor retires.

Any contributor who was an MNA prior to January 1, 1983 and at January 1, 1992, is also entitled to a pension equal to 75% of total contributions credited prior to January 1, 1983, which were not reimbursed and which were indexed since January 31, 1984. This percentage may be lower than 75% if the MAN was not in office at December 31, 1991 and had less than eight years of service.

Contributors acquire the right to SPPMNA benefits the date they acquire the right to a retirement pension under the basic plan. The benefit equals the total of the amounts calculated annually, which corresponds to the surplus of 4% of the total annual compensation over the pension credit calculated according to the PPMNA. Benefits are indexed to the rise in the cost of living until the contributor retires.

The amount of the special pension paid to the widow of Pierre Laporte was set by law.

d) Death benefits

Upon the death of a person contributing to the PPMNA or receiving retirement pension benefits, the surviving spouse is entitled to a pension equal to 60% of the pension the deceased was receiving or would have received. Each dependent child is eligible to receive a pension equal to 10% of this pension or, if no pension is paid to the spouse, to 20% of the pension.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)**Pension plan of the members of the National Assembly
Supplemental pension plan for members of the National Assembly
Special Pension Plan (cont'd)****d) Death benefits (cont'd)**

Contributors who, before January 1, 1992, had opted to continue their pension at 50% or 100% in favour of the surviving spouse, the option chosen remains applicable.

The pension paid to the spouse and dependent children, or to the latter alone, cannot exceed the amount of pension the Member was receiving or would have received.

The rules apply to both the basic plan and the SPPMNA.

e) Severance benefits

Under certain conditions, persons who cease to contribute to the PPMNA before being eligible for an immediate pension are entitled to the refund of the actuarial value of the pension.

f) Indexation of benefits

Pension benefits under the PPMNA and SPPMNA are fully indexed to the cost of living increase for that portion of the pension which corresponds to vested service prior to January 1, 1983, and are partially indexed for that portion of the pension which corresponds to vested service after December 31, 1982.

2. ACCOUNTING POLICIES

This financial statement was prepared by management in accordance with the accounting principles that are generally accepted in Canada. This statement includes amounts based on best estimates and judgements. Since the plans have no assets, no statement of assets available for benefit service has been presented.

Employee contributions

Adjustments to employee contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

The employee contribution for the fiscal year to the PPMNA is 9% of pensionable earnings. The SPPMNA is not contributory.

Employee contributions are deposited in the Consolidated Revenue Fund. The Act respecting the conditions of employment and the pension plan of the Members of the National Assembly does not oblige the Government to contribute to these plans. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations must be determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the plan administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation of the Government and Public Employees Retirement Plan (RREGOP) prepared using data at December 31, 1999 and presented to the retirement committee on November 7, 2001. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits for the PPMNA and the SPPMNA at \$140 341 000 as at December 31, 2001 and estimated it at \$147 522 000 as at December 31, 2003.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

4. PENSION OBLIGATIONS (cont'd)

Change in pension obligations

	2003	2002
Actuarial present value of accrued pension benefits – beginning of year	144 067	151 615
Increase		
Interest	9 520	9 284
Benefits accrued	4 358	4 305
	13 878	13 589
Decrease		
Actuarial gain		6 008
Change in actuarial assumptions		5 040
Corrections to participant data		226
Benefits paid	10 423	9 863
	10 423	21 137
Net increase (decrease) increase for the year	3 455	(7 548)
Actuarial present value of accrued pension benefits – end of year	147 522	144 067

Significant long-term economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Valuation for accounting purposes	Valuation for funding purpose
Inflation	4.00 %	2.80 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	1.30

The medium-term rates represent the average rates for the period 2002 to 2010, while the long-term rates represent the rates used as of 2011. The assumption related to yield is determined by presuming that, if the plan were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for these plans, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with generally recognized accounting policies applicable to the public sector in Canada. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the plans in the Consolidated Revenue Fund.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousands of dollars)

5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (cont'd)

The pension costs for the plans correspond to the sum of the cost of accrued benefits, changes to this plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the accumulated benefit method prorated based on service and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	<u>2003</u>	<u>2002</u>
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	<u>151 404</u>	<u>146 824</u>
Increase		
Contributions recovered	1 032	942
Pension costs		
Current service	3 434	
Past service	(2 709)	3 212
Interest	<u>9 343</u>	<u>9 885</u>
	<u>11 100</u>	<u>14 039</u>
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	<u>10 008</u>	<u>9 459</u>
Net increase	<u>1 092</u>	<u>4 580</u>
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u>152 496</u>	<u>151 404</u>
Estimated liability recorded as at December 31	<u>152 807</u>	<u>151 962</u>

The Financial Administration Act (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (March 31, 2003: \$50 266 billion). At December 31, 2003, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$11 739 billion, \$5 273 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$774 million for the Pension Plan of Management Personnel.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Members of the National Assembly according to the contributors' profile as at December 31, 2001 in order to determine the value of the obligations to be recorded in the plan's financial statement. This valuation reveals that, at that date, this value was \$103 322 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE PENSION PLAN OF THE MEMBERS OF THE NATIONAL ASSEMBLY AT DECEMBER 31, 2001,
CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN
IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, January 8, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Supplemental Pension Plan for the Members of the National Assembly according to the contributors' profile as at December 31, 2001 in order to determine the value of the obligations to be recorded in the plan's financial statement. This valuation reveals that, at that date, this value was \$37 019 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE SUPPLEMENTAL PENSION PLAN FOR THE MEMBERS OF THE NATIONAL ASSEMBLY AT
DECEMBER 31, 2001, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING
FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, January 8, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of contributions and benefits of the pension plans of the Members of the National Assembly and of the special pension plan for the year ended December 31, 2003. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statement is free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits for these plans for the year ended December 31, 2003, in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 16, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. R-10)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended December 31, 2003
(in thousand of dollars)

	2003 (Note 9)	2002
EXPENDITURE		
Salaries and fringe benefits	27 378	25 574
Professional fees	5 813	4 956
Communications and transportation	1 618	1 592
Space and equipment rental	2 212	1 992
Equipment	748	827
Office supplies	329	323
Maintenance and repairs	712	452
Interest on long-term debt	45	3
Other expenses	73	53
Write-off of computer system development	1 744	3
Depreciation of fixed assets	2 697	1 931
	<u>43 369</u>	<u>37 706</u>
REVENUE		
Expenses assumed by the Government and Public Employees		
Retirement Plan		
Employee contributions fund	16 894	14 509
Employer contributions fund	16 894	14 509
Expenses assumed by the Pension Plan of Management		
Personnel		
Employee contributions fund	1 214	1 148
Employer contributions fund	1 214	1 148
Other plans	6 589	5 742
Other sources	481	577
	<u>43 286</u>	<u>37 633</u>
DEFICIT FOR THE YEAR	(83)	(73)
SURPLUS – BEGINNING OF YEAR	<u>101</u>	<u>174</u>
SURPLUS – END OF YEAR	<u>18</u>	<u>101</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

BALANCE SHEET
as at December 31, 2003
(in thousand of dollars)

	2003	2002
ASSETS		
Current assets		
Cash on hand	469	176
Accounts receivable	2 476	2 845
Short-term investments – at cost (2.75%)	3 150	2 828
Accrued interest on investments	8	8
	<u>6 103</u>	<u>5 857</u>
Investments (Note 3)	14	439
Fixed assets (Note 4)	11 090	9 023
Owed by the Secrétariat du Conseil du trésor		563
Owed by the pension plans (Note 7)	<u>6 403</u>	<u>5 995</u>
	<u>17 507</u>	<u>16 020</u>
	<u>23 610</u>	<u>21 877</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	2 242	2 569
Instalments on long-term debt (Note 5)	<u>214</u>	<u>156</u>
	<u>2 456</u>	<u>2 725</u>
Long-term debt (Note 5)	493	502
Deferred contributions (Note 6)	11 090	9 371
Provision for sick leave and vacation time (Note 7)	<u>9 553</u>	<u>9 178</u>
	<u>23 592</u>	<u>21 776</u>
SURPLUS	<u>18</u>	<u>101</u>
	<u>23 610</u>	<u>21 877</u>

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CASH FLOWS

for the year ended December 31, 2003

(in thousand of dollars)

	2003	2002
OPERATING ACTIVITIES		
Deficit for the year	(83)	(73)
Items not affecting liquid assets		
Depreciation of fixed assets	2 697	1 931
Write-off of computer system development	1 744	3
Transfer of deferred contributions	(4 789)	(2 254)
	(431)	(393)
Changes in assets and liabilities related to operation		
Accounts receivable	369	(1 273)
Accrued interest on investments		(2)
Owed by the Secr�tariat du Conseil du tr�sor	563	644
Owed by the pension plans	(408)	(849)
Accounts payable and accruals	(327)	607
Deferred contributions	6 508	5 451
Provisions for sick leave and vacation time	375	839
	7 080	5 417
Cash flows from operating activities	6 649	5 024
FINANCING ACTIVITIES		
Long-term debt	235	213
Repayment of the long-term debt	(186)	(35)
Cash flows from financing activities	49	178
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(6 508)	(5 451)
Investments	425	306
Cash flows used for investment activities	(6 083)	(5 145)
INCREASE IN CASH AND CASH EQUIVALENTS	615	57
CASH AND CASH-EQUIVALENTS – BEGINNING OF YEAR	3 004	2 947
CASH AND CASH EQUIVALENTS – END OF YEAR (Note 8)	3 619	3 004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO FINANCIAL STATEMENT

December 31, 2003

(in thousand of dollars)

1. CONSTITUTION, PURPOSE AND FINANCING

The Commission administrative des régimes de retraite et d'assurances (CARRA) was established by the Act respecting the Government and Public Employees Retirement Plan (R.S.Q., c. R-10) for the purpose of administering this plan and any other pension or insurance plan whose management is assigned to the Commission by an act or by the Gouvernement du Québec.

2. ACCOUNTING POLICIES

The financial statements of CARRA were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Fixed assets

Fixed assets are recorded at cost and depreciated on straight-line basis at the rate of 20%.

Short-term investments

Short-term investments are recorded at the lower of cost and fair value.

Deferred contributions

Contributions are deferred and posted to the statement of revenue and expenditure and surplus as the expenses to which they correspond.

Pension plans

The accounting procedure used for defined contribution plans is applied to interenterprise government defined-benefit plans, given that CARRA lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

CARRA's policy consists in presenting under cash and cash equivalents bank balances and short-term investments maturing within three months of the date they were acquired.

3. SHORT-TERM INVESTMENTS

Term deposits with the Caisse de dépôt
et placement du Québec

RREGOP participants fund
PPMP participants fund
Gouvernement du Québec

	2003	2002
RREGOP participants fund	4	199
PPMP participants fund	3	20
Gouvernement du Québec	7	220
	<u>14</u>	<u>439</u>

These demand deposits bear interest at a rate of 2.75%. Representatives of RREGOP participants, PPMP participants and the Gouvernement du Québec agreed to provide CARRA with funding to upgrade its computer systems. CARRA received an initial amount of \$2 156 000, that is, \$1 000 000 from the RREGOP participants fund, \$78 000 from the PPMP participants fund and \$1 078 000 from the Gouvernement du Québec. The balance as at December 31, 2003, composed solely of cumulated interest, is \$14 439.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO FINANCIAL STATEMENT (cont'd)

December 31, 2003

(in thousand of dollars)

4. FIXED ASSETS

	2003			2002
	Cost	Accumulated depreciation	Net	Net
Integrated furniture	2 786	1 854	932	837
Computer equipment and software	2 254	1 237	1 017	962
Development of information systems	15 501	6 360	9 141	7 224
	<u>20 541</u>	<u>9 451</u>	<u>11 090</u>	<u>9 023</u>

5. LONG-TERM DEBT

The integrated furniture acquired in 2001 for \$644 088 was financed by the Société immobilière du Québec at a rate of 6.68% and is refundable in monthly payments of \$7 151 payable until September 30, 2006 and in monthly payments of \$4 898 payable until March 31, 2006. Development projects totalling \$213 058 carried out at CARRA in 2002 are financed by the Société immobilière du Québec at a rate of 6.08% and CARRA repays the cost through monthly payments of \$4 106 payable until September 30, 2007. Development work in the amount of \$235 945 done at CARRA in 2003 was financed by the Société immobilière du Québec at a rate of 5.52% and CARRA repaid the costs in monthly payments of \$4 222 payable until April 30, 2008 and by monthly payments of \$614 payable until June 30, 2005.

	2003			2002
	Development projects	Integrated furniture	Total	Total
Outstanding principal	370	337	707	658
Payment due within one year	88	126	214	156
	<u>282</u>	<u>211</u>	<u>493</u>	<u>502</u>

The amount of capital and interest to be paid over the next five fiscal years is as follows:

Fiscal year	Capital		Interest		Total
	Development projects	Integrated furniture	Development projects	Integrated furniture	
2004	88	126	19	19	252
2005	90	134	14	10	248
2006	91	77	9	2	179
2007	84		3		87
2008	17				17
	<u>370</u>	<u>337</u>	<u>45</u>	<u>31</u>	<u>783</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO FINANCIAL STATEMENT (cont'd)

December 31, 2003

(in thousand of dollars)

6. DEFERRED CONTRIBUTIONS

	2003	2002
Deferred contributions – beginning of the year	9 371	6 174
Deferred contributions for the fiscal year		
Funding from plans	6 508	5 451
	15 879	11 625
Transfer of deferred contributions from previous years	(4 789)	(2 254)
Deferred contributions – end of year	11 090	9 371

7. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of CARRA participate in the Government and Public Employees Retirement Plan, the Pension Plan of Management Personnel and the Civil Service Superannuation Plan. These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The CARRA's contributions charged to the year-end statement amount to \$1 276 393 (2002: \$1 328 711). CARRA's liability towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave and vacation time

	2003			2002
	Sick leave	Vacation time	Total	Total
Opening balance	6 357	2 821	9 178	8 339
Plus				
Expenditures for the year	938	1 981	2 919	3 038
Less				
Benefits paid during the year	628	1 916	2 544	2 199
Closing balance	6 667	2 886	9 553	9 178

The provision for sick leave and vacation time can be recovered in its entirety from the Secrétariat du Conseil du trésor. At December 31, 2003, the balance receivable was \$6 402 804 (2002: \$5 995 551).

8. CASH FLOWS

The cash and cash equivalents appearing in the cash flow statement include the following amounts recorded in the balance sheet:

	2003	2002
Cash	469	176
Short-term investments	3 150	2 828
	3 619	3 004

The interest paid by CARRA over the fiscal year was \$45 115 (2002: \$3 011).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO FINANCIAL STATEMENT (cont'd)

December 31, 2003

(in thousand of dollars)

9. CARRA BUDGET

CARRA's annual budget is determined by the Government. The Government also determines, in accordance with the applicable agreements, where such agreements exist, the portion of CARRA's budget allocated to RREGOP participants, that allocated to PPMP participants and that allocated to participants of the pension plans administered by CARRA.

10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the CARRA is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or to either joint control or significant influence by the Gouvernement du Québec. CARRA did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

11. LOCAL FUND FOR THE RETIREMENT PREPARATION PROGRAM

CARRA has administered a retirement preparation program for employees of the Gouvernement du Québec. CARRA has been authorized to bill the government departments and agencies for the costs related to meetings and to establish a local fund for this purpose. Fund transactions break down as follows:

	2003	2002
Opening fund balance	14	20
Revenue	831	681
Expenditure	(734)	(687)
Closing fund balance	<u>111</u>	<u>14</u>

12. FINANCIAL INSTRUMENTS

The book value of cash, accounts receivable, short-term investments, interest accrued on investments, investments, accounts payable and accrued expenses constitute a reasonable estimate of their fair value given that these financial assets and liabilities mature in the near future.

The fair value of the item Owed by the Secrétariat du Conseil du trésor cannot be estimated reliably enough given the lack of market for this type of financial asset.

Finally, the fair value of the long-term debt was evaluated at \$716 898 using the capitalization of cash flows at the current interest rate, i.e. 5.52%.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**MANAGEMENT'S REPORT**

The financial statements of CARRA were drawn up by management, which is responsible for their preparation, presentation and the significant estimates and judgements included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements. In the case of estimates, they were made to the best of management's knowledge.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The internal audit department periodically audits different areas of CARRA's operations. This audit includes reviewing and assessing the existence, relevance and adequacy of management's internal accounting controls.

CARRA recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

CARRA actuaries carry out an actuarial valuation every three years as well as an annual estimate of the pension obligations entered in CARRA's financial statements in accordance with generally accepted actuarial practices. They report the results of their valuation to CARRA.

Draft financial statements for the RREGOP, PPMP and PPEMO were presented to the auditing committees concerned for examination and reporting to CARRA.

The Auditor General of Québec has audited the CARRA's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committees to discuss any element concerning his audit.

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
Resources and Materials

Québec, March 29, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Commission administrative des régimes de retraite et d'assurances for the year ended December 31, 2003 and the statements of revenue, expenditure, surplus and of cash flows for the year then ended. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at December 31, 2003 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 12, 2004

COMMISSION DE LA CAPITALE NATIONALE DU QUÉBEC
(R.S.Q., c. C-33.1)

INCOME
for the year ended March 31, 2004

	2004			2003
	Current transactions	Fund to develop and enhance the capital	Total	Total
REVENUE				
Gouvernement du Québec subsidies (Note 3)	\$16 999 185		\$16 999 185	\$23 994 951
Partners' contributions (Note 4)	3 408 010		3 408 010	991 165
Interest	283 808	\$47 763	331 571	475 363
Rental	84 740		84 740	68 726
Other	21 094		21 094	61 355
	<u>20 796 837</u>	<u>47 763</u>	<u>20 844 600</u>	<u>25 591 560</u>
EXPENDITURE				
Financial assistance	5 292 786	215 620	5 508 406	7 093 797
Salaries and fringe benefits	2 334 336		2 334 336	2 170 832
Property and school taxes	1 224 422		1 224 422	1 067 342
Professional and administrative services	7 508 812	1 017 894	8 526 706	11 859 755
Transportation and communications	297 085	850	297 935	430 499
Maintenance and repairs	346 834	54 016	400 850	395 149
Materials and supplies	333 418	36 770	370 188	1 034 065
Rent	456 526		456 526	428 501
Depreciation of capital assets	810 351		810 351	877 658
Financial expenses (Note 8)	1 830 604		1 830 604	1 314 239
	<u>20 435 174</u>	<u>1 325 150</u>	<u>21 760 324</u>	<u>26 671 837</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURE	<u>\$361 663</u>	<u>\$(1 277 387)</u>	<u>\$(915 724)</u>	<u>\$(1 080 277)</u>

CHANGE IN FUND BALANCES
for the year ended March 31, 2004

	2004			2003
	Current transactions			
	Investments in tangible fixed assets	Fund balance	Fund to develop and enhance the capital	Total
OPENING BALANCE	\$754 929		\$3 401 918	\$4 156 847
(Deficiency) excess revenue over expenditure	(810 351)	\$1 172 014	(1 277 387)	(915 724)
Investments in tangible fixed assets	1 115 277	(1 115 277)		
	<u>1 059 855</u>	<u>56 737</u>	<u>2 124 531</u>	<u>3 241 123</u>
Inter-fund transfer		(56 737)	56 737	
CLOSING BALANCE	<u>\$1 059 855</u>		<u>\$2 181 268</u>	<u>\$4 156 847</u>

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

BALANCE SHEET
as at March 31, 2004

	2004			2003
	Current transactions	Fund to develop and enhance the capital	Elimination of inter-fund transactions	Total
ASSETS				
Current assets				
Cash on hand (Note 5)	\$4 893 563	\$2 144 188		\$7 037 751
Accounts receivable and interest accrued	51 811	4 242		56 053
Inter-fund receivable, interest-free and no repayment terms		185 259	\$(185 259)	
Prepaid expenses	238 663			238 663
Gouvernement du Québec subsidies receivable	2 386 708			2 386 708
Contributions receivable (Note 6)	233 224			233 224
	<u>7 803 969</u>	<u>2 333 689</u>	<u>(185 259)</u>	<u>9 952 399</u>
Cash reserved for acquisition of capital assets	542 443			542 443
Gouvernement du Québec subsidies receivable	27 981 556			27 981 556
Contributions receivable (Note 6)	40 000			40 000
Deferred expenses	180 270			180 270
Capital assets (Note 7)	<u>16 571 026</u>			<u>16 571 026</u>
	<u>\$53 119 264</u>	<u>\$2 333 689</u>	<u>\$(185 259)</u>	<u>\$55 267 694</u>
				<u>\$64 519 227</u>

On behalf of the Board of Directors,
Pierre Boulanger
Jacques Lemieux

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

BALANCE SHEET (cont'd)
as at March 31, 2004

	2004			2003
	Current transactions	Fund to develop and enhance the capital	Elimination of inter-fund transactions	Total
LIABILITIES				
Current liabilities				
Suppliers and other creditors (Note 10)	\$2 063 251	\$152 421		\$5 636 779
Inter-fund receivable, interest-free and no repayment terms	185 259		\$(185 259)	
Deferred Gouvernement du Québec subsidies (Note 11)	2 673 963			5 538 057
Deferred contributions (Note 12)	1 168 975			78 666
Portion of debt due next year (Note 13)	2 386 708			3 342 402
	<u>8 478 156</u>	<u>152 421</u>	<u>(185 259)</u>	<u>14 595 904</u>
Deferred contributions (Note 12)	48 652			16 014
Deferred contributions reserved for acquisition of fixed assets	542 443			755 518
Long-term debt (Note 13)	<u>27 504 001</u>			<u>29 889 474</u>
	<u>36 573 252</u>	<u>152 421</u>	<u>(185 259)</u>	<u>45 256 910</u>
EQUITY				
Gouvernement du Québec contribution (Note 14)	15 486 157			15 105 470
Fund balance				
Invested in fixed assets	1 059 855			754 929
Fund to develop and enhance the capital		2 181 268		3 401 918
	<u>16 546 012</u>	<u>2 181 268</u>		<u>19 262 317</u>
	<u>\$53 119 264</u>	<u>\$2 333 689</u>	<u>\$(185 259)</u>	<u>\$64 519 227</u>

COMMITMENTS (Note 15)

On behalf of the Board of Directors,
Pierre Boulanger
Jacques Lemieux

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

CASH FLOWS

for the year ended March 31, 2004

	2004		2003
	Current transactions	Fund to develop and enhance the capital	Total
OPERATING ACTIVITIES			
Receipts			
Gouvernement du Québec subsidies	\$16 428 273		\$16 428 273
Partners' and clients' contributions	4 698 829		4 698 829
Inter-fund debt		\$1 754 693	1 754 693
Expenditures			
Suppliers and staff members	(21 233 277)	(1 316 555)	(22 549 832)
Inter-fund debt	(1 754 693)		(1 754 693)
Interest earned	287 855	47 683	335 538
Interest paid	(1 755 212)		(1 755 212)
Cash flows (used for) provided by operating activities	(3 328 225)	485 821	(2 842 404)
INVESTMENT ACTIVITIES			
Proceeds from the sale of assets slated for sale			2 153 202
Acquisition of capital assets	(861 305)		(861 305)
Cash flows used for investment activities	(861 305)		(8 031 046)
FINANCING ACTIVITIES			
Cash reserved for the acquisition of capital assets	213 075		213 075
Deferred expenses			(117 857)
Long-term debt			17 329 358
Repayment of long-term debt	(3 341 167)		(3 341 167)
Deferred contributions reserved for acquisition of fixed assets	(213 075)		(213 075)
Gouvernement du Québec contribution	380 687		380 687
Cash flows (used for) provided by financing activities	(2 960 480)		(2 960 480)
INCREASE (DECREASE) IN CASH ON HAND	(7 150 010)	485 821	(6 664 189)
CASH ON HAND, BEGINNING OF YEAR	12 100 310	1 601 630	13 701 940
Inter-fund transfer	(56 737)	56 737	
CASH ON HAND, END OF YEAR	\$4 893 563	\$2 144 188	\$7 037 751

COMMISSION DE LA CAPITALE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

The Commission de la capitale nationale du Québec is a legal person established by the Act respecting the National Capital Commission (R.S.Q., c. C-33.1) to:

- contribute to the planning of and improvement to the major buildings and equipment which characterize a capital;
- establish squares, parks and gardens and promenades and erect monuments and works of art;
- support the improvement of the quality of architecture and the landscape;
- support the preservation, improvement and accessibility of squares, parks and gardens, promenades and public thoroughfares, and of historic sites, works, monuments and property enhancing or giving prestige to the capital;
- support work designed to improve access to the capital;
- support the organization and promotion of activities and events of a historical, cultural and social nature that give prominence to the capital.

The Commission advises the Government on:

- the location of government offices and departments or other government bodies and their employees;
- the construction, preservation, planning and development of buildings housing government offices and departments or other government bodies in the territory of the Communauté métropolitaine de Québec;
- the layout, in the territory of the Communauté métropolitaine de Québec, of transport and communications infrastructures providing access to the capital, the designation of ceremonial routes, the location of diplomatic missions and international organizations, and the conditions applicable to international presence;
- the planning and development of the territory of the Communauté métropolitaine de Québec and of the territory of local municipalities and regional county municipalities forming part of the Communauté métropolitaine de Québec.

Under section 984 of the Québec Taxation Act and section 149 of the Canadian Income Tax Act, the Commission does not pay income tax.

2. ACCOUNTING POLICIES

The financial statements of the Commission were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Fund accounting

In accordance with the Act respecting the National Capital Commission, the sums received by the Commission must be used to discharge its obligations and the balance paid into a fund to develop and enhance the capital. The Government has authorized the use of the fund for this purpose.

Proceeds accrued

The Commission uses the deferral method to record contributions. The contributions are accrued in the fiscal year in which the related charges were incurred. The contributions of non-restricted partners are accrued as proceeds when received or receivable.

Gouvernement du Québec subsidies receivable

Subsidies receivable for fixed assets and their maintenance are recorded in the fiscal year in which the Commission obtained the funding or carried out the work entitling it to these subsidies.

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

2. ACCOUNTING POLICIES (cont'd)

Financial assistance

Financial assistance is recorded to charges when the facts giving rise to it occur, inasmuch as it was authorized and the beneficiaries met the eligibility criteria, where applicable.

Deferred expenses

Deferred expenses comprise long-term debt issuing and management costs. Amortization is calculated using the straight-line method over the duration of the debt it is related to.

Capital assets

Fixed assets are recorded at acquisition cost and amortization is calculated using the following methods:

	Method	Rate
Data processing equipment and software	Straight-line	33 1/3%
Office furniture and equipment	Diminishing balance	20%
Leasehold improvements	Straight-line	20%
Facilities development	Straight-line	20%
Equipment and software leased under a capital lease contract	Straight-line	33 1/3%

Given its historic value, eternal character and classification by the Ministère de la Culture et des Communications, cultural property is not amortized.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2004	2003
Ministère des Ressources naturelles, de la Faune et des Parcs		
Operations	\$11 775 412	\$12 478 184
Repayment of interest on the long-term debt	1 709 056	1 187 517
Specific projects		
Development of Avenue Honoré-Mercier	199 000	4 385 695
Enhancement of National Assembly building	122 358	637 539
Public investment acceleration plan	3 116 965	5 259 717
Ministère de la Culture et des Communications		
Repayment of interest on the long-term debt	76 394	46 299
	<u>\$16 999 185</u>	<u>\$23 994 951</u>

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

4. PARTNERS' CONTRIBUTIONS

	<u>2004</u>	<u>2003</u>
Québec City	\$2 502 603	
Hydro-Québec	364 784	\$32 292
Séminaire de Québec	250 000	
Société immobilière du Québec	173 357	171 647
Société des Traversiers du Québec	24 284	14 323
Assemblée nationale	20 815	519 464
Société des établissements de plein air du Québec	16 759	
Ministère de l'Éducation	15 000	15 000
Ministère des Transports	12 500	201 704
Musée national des beaux-arts du Québec		5 933
Other	27 908	30 802
	<u>\$3 408 010</u>	<u>\$991 165</u>

5. CASH ON HAND

Cash on hand bears interest at 2.75%. An amount of \$1 858 321 (2003: \$5 296 643) is reserved for the following: \$50 000 for redevelopment work on Avenue Honoré-Mercier, \$560 003 for development work on the back lawns of the Parliament Building and \$1 248 318 for work related to the public investment acceleration plan.

6. CONTRIBUTIONS RECEIVABLE

	<u>2004</u>	<u>2003</u>
Hydro-Québec	\$168 611	
Société des établissements de plein air du Québec	16 759	
Assemblée nationale	9 669	\$3 000
Société immobilière du Québec		120 654
Ministère des Transports		48 000
Ministère de l'Éducation		15 000
Société des Traversiers du Québec		14 323
Ministère des Affaires municipales, du Sport et du Loisir		12 847
Musée national des beaux-arts du Québec		3 084
Other	78 185	20 000
	273 224	236 908
Contributions payable in the coming fiscal year	(233 224)	(236 908)
	<u>\$40 000</u>	

At March 31, 2004, \$195 039 represented the amount of contributions receivable from related parties (2003: \$216 908).

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

7. CAPITAL ASSETS

	2004		2003
	Cost	Accumulated depreciation	Total
Land	\$7 946 032		\$7 675 206
Parc du Bois-de-Coulonge	1		1
Parc de l'Amérique Française *	1		1
Data processing equipment and software	291 401	\$233 699	81 364
Office furniture and equipment	326 540	203 079	151 620
Leasehold improvements	127 004	36 366	106 494
Facilities development	4 410 718	3 624 318	1 059 572
Developments in progress	1 019 571		887 911
Equipment and software leased under capital lease contracts	52 290	50 321	12 653
	<u>14 173 558</u>	<u>4 147 783</u>	<u>9 974 821</u>
Cultural property			
Domaine de Maizerets	6 545 250		6 545 250
Domaine Cataragui	1		1
	<u>6 545 251</u>		<u>6 545 251</u>
	<u>\$20 718 809</u>	<u>\$4 147 783</u>	<u>\$16 520 072</u>

* During the fiscal year, the Commission acquired Parc de l'Amérique-Française from the Société immobilière du Québec for a nominal value of \$1.

8. FINANCIAL EXPENSES

	2004	2003
Amortization of deferred expenses	\$22 085	\$14 895
Interest on the long-term debt	<u>1 808 519</u>	<u>1 299 344</u>
	<u>\$1 830 604</u>	<u>\$1 314 239</u>

9. BANK BORROWING

The Commission has an authorized credit margin of \$500 000 bearing interest at the prime rate and renewable annually.

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**10. SUPPLIERS AND OTHER CREDITORS**

	2004	2003
Suppliers – current operations	\$1 297 088	\$4 784 930
Suppliers – Fund to develop and enhance the capital	152 421	143 826
Salaries and fringe benefits	12 137	64 070
Vacation time payable	219 155	170 579
Sick leave payable	26 893	18 703
Interest payable on long-term debt	507 978	454 671
	<u>\$2 215 672</u>	<u>\$5 636 779</u>

At March 31, 2004, \$58 704 represented amounts payable to related parties (2003: \$41 277).

11. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES

Deferred Gouvernement du Québec subsidies presented in the current operating fund correspond to subsidies received in the fiscal years under consideration and destined to cover the expenses of future fiscal years. The changes in the deferred subsidies are as follows:

	2004	2003
Opening balance	\$5 538 057	\$5 760 309
Subsidies recorded as proceeds of the fiscal year	<u>(3 872 838)</u>	<u>(5 023 234)</u>
	1 665 219	737 075
Subsidies received in the fiscal year	<u>1 008 744</u>	<u>4 800 982</u>
Closing balance	<u>\$2 673 963</u>	<u>\$5 538 057</u>

12. DEFERRED CONTRIBUTIONS

The deferred contributions presented in the current operating fund correspond to contributions received in the fiscal years under consideration and destined to cover the expenses of future fiscal years. The changes in the deferred contributions are as follows:

	2004	2003
Opening balance	\$94 680	\$348 995
Contributions recorded as proceeds of fiscal year	<u>(61 497)</u>	<u>(274 315)</u>
	33 183	74 680
Contributions received in the fiscal year	<u>1 184 444</u>	<u>20 000</u>
	1 217 627	94 680
Contributions destined to cover expensed for the next fiscal year	<u>(1 168 975)</u>	<u>(78 666)</u>
Closing balance fin	<u>\$48 652</u>	<u>\$16 014</u>

At March 31, 2004, \$26 573 represented deferred contributions from related parties (2003: \$74 680).

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**13. LONG-TERM DEBT**

	Effective rate	2004	2003
Borrowings on note from the Financing Fund of the Gouvernement du Québec, guaranteed by the Gouvernement du Québec:			
5.37% repayable in half-yearly instalments of \$171 198 on the principal of the borrowing and a final instalment of \$2 225 779 on December 1, 2010 *	5.51 %	\$4 451 158	\$4 793 555
6.06% repayable in half-yearly instalments of \$345 842 on the principal of the borrowing, maturing on December 1, 2010 *	6.21	4 841 788	5 533 472
6.06% repayable in half-yearly instalments of \$103 333 on the principal of the borrowing and a final instalment of \$1 343 333 on December 1, 2010 *	6.16	2 686 667	2 893 333
6.06% repayable in half-yearly instalments of \$42 000 on the principal of the borrowing and a final instalment of \$1 386 000 on December 1, 2010 *	6.15	1 932 000	2 016 000
6.09%, repayable in half-yearly instalments of \$112 205 on the principal of the borrowing and a final instalment of \$2 244 109 on October 1, 2012 *	6.21	4 151 601	4 376 012
4.10%, repayable in half-yearly instalments of \$52 447 on the principal of the borrowing and a final instalment of \$1 678 312 on March 5, 2007 *	4.24	1 940 549	2 045 443
5.64%, repayable in half-yearly instalments of \$318 623 on the principal of the borrowing, maturing on January 16, 2018	5.78	8 921 450	9 625 000
Borrowing repaid during the fiscal year			602 720
Borrowings guaranteed by the Ministère de la Culture et des Communications			
7.60%, repayable in monthly instalments of \$10 034, principal and interest maturing on April 5, 2015 *	7.60	900 155	950 076
6.90%, repayable in monthly instalments of \$3 734, principal and interest maturing on November 29, 2004 *	6.90	29 095	70 321
6.16%, repayable in monthly instalments of \$1 198, principal and interest maturing on December 12, 2006 *	6.16	36 246	47 985
Ministère des Transports advance, interest-free, no terms of repayment, repaid during the fiscal year			275 000
Obligations resulting from a capital lease contract, repaid during the fiscal year			2 959
		29 890 709	33 231 876
Portion maturing in the next fiscal year		(2 386 708)	(3 342 402)
		<u>\$27 504 001</u>	<u>\$29 889 474</u>

* Capital payments on these borrowings are made annually from Gouvernement du Québec and Ministère de la Culture et des Communications subsidies slated for this purpose.

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

13. LONG-TERM DEBT (cont'd)

Capital payments for the next five fiscal years are as follows:

2005	\$2 386 708
2006	2 363 665
2007	3 991 332
2008	2 254 998
2009	2 260 310

14. GOUVERNEMENT DU QUÉBEC CONTRIBUTION

The amount of the Gouvernement du Québec contribution corresponds to the cost of property, cultural property and development in progress, funded by long-term borrowings whose capital payments are covered by Gouvernement du Québec subsidies. The contribution breaks down as follows:

	2004	2003
Land	\$7 921 335	\$7 672 308
Cultural property	6 545 251	6 545 251
Development in progress	1 019 571	887 911
	<u>\$15 486 157</u>	<u>\$15 105 470</u>

15. COMMITMENTS

The Commission is committed to financially supporting various projects aimed at enhancing and promoting the capital and promoting cultural activities and events that give prominence to the capital. As at March 31, 2004, the Commission had commitments for the purchase of goods and services over the next 5 fiscal years totalling \$2 838 275 (2003: \$7 444 664).

16. FUTURE FRINGE BENEFITS

The staff members of the Commission participate in the Pension Plan of Management Personnel (PPMP), Government and Public Employees Retirement Plan (RREGOP) or Civil Service Superannuation Plan (CSSP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Commission's liability towards these Government plans is restricted to its contributions as an employer. Its contributions charged to the year-end statement amount to \$65 114 (2003: \$60 927).

17. FINANCIAL INSTRUMENTS

The fair value of short-term assets and liabilities and cash on hand reserved for the acquisition of fixed assets corresponds approximately to their book value, given that they mature in the near future.

The fair value of Gouvernement du Québec subsidies receivable and the fair value of the long-term debt are determined by capitalizing future cash flows at capitalization rates representing the rates the Commission could have as at the date of the financial statement for borrowings with similar conditions and maturity dates.

The fair market value of the contributions receivable and deferred over the long term is established by capitalizing future cash flows at a capitalization rate representing the rates the Commission might use on the date of the financial statement for investments with similar conditions and maturity dates.

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

17. FINANCIAL INSTRUMENTS (cont'd)

The following table shows the book value and fair value of the other financial instruments.

	2004		2003	
	Book value	Fair value	Book value	Fair value
Gouvernement du Québec subsidy receivable	\$30 368 264	\$32 587 038	\$32 661 346	\$33 629 387
Contributions receivable	40 000	35 472		
Deferred contributions	48 652	43 657	16 014	15 539
Long-term debt				
Borrowings from the Financing Fund	28 925 213	31 019 472	31 885 535	32 757 443
Borrowing guaranteed by the Ministère	965 496	1 094 995	1 068 382	1 153 661

18. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Commission is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it.

The Commission did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements. Fixed asset purchases and sales between related parties are recorded at the assignor's book value and disclosed in Note 7.

19. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Commission de la capitale nationale du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Commission recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Commission's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Pierre Boulanger
President and Chief Executive Officer

Québec, July 11, 2004

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Commission de la capitale nationale du Québec as at March 31, 2004, the statement of income, the statement of change in fund balances and the statement of cash flows for the year then ended. These financial statements are the responsibility of Commission management. It is my responsibility to express an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management, and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, July 11, 2004

COMMISSION DE LA CONSTRUCTION DU QUÉBEC
(R.S.Q., c. R-20)
GENERAL FUND

REVENUE AND EXPENDITURE AND FUND BALANCE DEFICIT
for the year ended December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
REVENUE		
Levies	48 142	42 387
Service fees	6 557	5 997
Optional participation	639	633
Penalties	1 463	2 401
Transfer of unidentified or unclaimed compensation and claims	14	236
Investment income (Note 4)	811	487
Other	581	523
	<u>58 207</u>	<u>52 664</u>
EXPENDITURE		
Employee remuneration and personnel management	59 856	54 322
Administrative expenses	13 703	13 542
Office space	3 032	2 727
Depreciation of fixed assets	2 314	2 097
Advertising and public relations	627	941
Contribution to the Construction Industry Commissioner's Fund	963	881
Other expenses	1 031	345
Expenditure before the following items	81 526	74 855
Expenditure charge to supplemental pension and insurance plans	(14 346)	(12 257)
Expenditure charged to the Training Fund and the Training Plan	(1 210)	(1 097)
Transfer of interest from the Holiday and Vacation Pay Fund	(2 912)	
Gouvernement du Québec subsidy to help fight black market labour	(8 382)	(8 180)
	<u>54 676</u>	<u>53 321</u>
EXCESS REVENUE OVER EXPENDITURE	3 531	(657)
FUND BALANCE DEFICIT, BEGINNING OF YEAR	<u>(7 928)</u>	<u>(7 271)</u>
CLOSING FUND BALANCE DEFICIT	<u><u>(4 397)</u></u>	<u><u>(7 928)</u></u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**GENERAL FUND****BALANCE SHEET**
as at December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets		
Cash on hand		4 018
Investment and accrued revenue (Notes 5.2a and 6)	29 193	17 611
Levies receivable	4 618	4 431
Accounts receivable	1 761	2 112
Gouvernement du Québec subsidies receivable	3 350	4 750
Prepaid expenses	261	294
	<u>39 183</u>	<u>33 216</u>
Gouvernement du Québec subsidies receivable	3 550	6 900
Fixed assets (Note 7)	<u>11 206</u>	<u>10 626</u>
	<u>53 939</u>	<u>50 742</u>
LIABILITIES		
Current liabilities		
Bank overdraft	477	
Accounts payable and accrued expenses	11 115	8 821
Deferred revenue	405	272
Deferred Gouvernement du Québec subsidies	7 323	11 255
	<u>19 320</u>	<u>20 348</u>
Deferred Gouvernement du Québec subsidies	3 550	6 900
Liability for benefits accrued under future fringe benefits (Note 17)	<u>35 466</u>	<u>31 422</u>
	58 336	58 670
FUND BALANCE DEFICIT	<u>(4 397)</u>	<u>(7 928)</u>
	<u>53 939</u>	<u>50 742</u>
COMMITMENTS (Note 15)		
CONTINGENCIES (Note 16)		

On behalf of the Board of Directors,
André Ménard
Normand Pelletier

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**GENERAL FUND****CASH FLOWS**

for the year ended December 31, 2003

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
OPERATING ACTIVITIES		
Excess revenue over expenditure	3 531	(657)
Adjustments for:		
Depreciation of fixed assets	2 314	2 097
Loss on disposal of fixed assets	62	3
Increase in benefits accrued under future fringe benefits	<u>4 044</u>	<u>2 216</u>
	9 951	3 659
Change in non-cash elements of the Working Capital Fund (Note 9)	<u>92</u>	<u>(629)</u>
Cash flows related to operating activities	<u>10 043</u>	<u>3 030</u>
INVESTMENT ACTIVITIES		
Acquisition (disposal) of investments	(11 105)	5 646
Acquisition fixed assets	(2 966)	(2 599)
Proceeds from disposal of fixed assets	<u>10</u>	<u>1</u>
Cash flows related to investment activities	<u>(14 061)</u>	<u>3 048</u>
FINANCING ACTIVITIES		
Repayment of the long-term debt related to capital leases	<u></u>	<u>(19)</u>
Cash flows related to financing activities	<u></u>	<u>(19)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4 018)	6 059
CASH AND CASH EQUIVALENTS AT THE BEGINNING	<u>12 915</u>	<u>6 856</u>
CASH AND CASH EQUIVALENTS AT THE END (Note 9)	<u><u>8 897</u></u>	<u><u>12 915</u></u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**HOLIDAY AND VACATION PAY FUND****ASSETS AND LIABILITIES**

as at December 31, 2003

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments and accrued revenue (Notes 5.2a and 6)	164 044	141 019
Vacation pay receivable	23 206	21 380
Interest on prepaid vacation and holiday leave	<u> </u>	<u>1 640</u>
	<u>187 250</u>	<u>164 039</u>
 LIABILITIES		
Outstanding cheques less cash on hand	1 712	1 881
Accounts payable	621	572
Holiday and vacation pay, payable to employees	<u>184 917</u>	<u>161 586</u>
	<u>187 250</u>	<u>164 039</u>

On behalf of the Board of Directors,
 André Ménard
 Normand Pelletier

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**HOLIDAY AND VACATION PAY FUND****CHANGES IN ASSETS**

for the year ended December 31, 2003

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
SOURCE OF FUNDS		
Contributions received for compulsory annual vacation and general holidays	328 928	286 062
Investment income	7 786	(67)
Increase of interest on prepaid vacation and holiday leave		2 156
Increase in outstanding cheques less cash on hand and accounts payable		<u>39</u>
	<u>336 714</u>	<u>288 190</u>
USE OF FUNDS		
Decrease in outstanding cheques less cash on hand and accounts payable	120	
Payments to employees		
Compulsory annual vacation and holiday compensation	308 438	262 199
Interest on compensation paid	299	2 739
Repayment of interest on prepaid vacation and holiday leave	1 640	516
Transfer to General Fund		
Interest	2 912	
Compensation payable to unidentified employees or unclaimed after three years	<u>94</u>	<u>76</u>
	<u>313 503</u>	<u>265 530</u>
INCREASE IN ASSETS	23 211	22 660
ASSETS, BEGINNING OF YEAR	<u>164 039</u>	<u>141 379</u>
ASSETS, END OF YEAR	<u><u>187 250</u></u>	<u><u>164 039</u></u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**BACK PAY FUND****ASSETS AND LIABILITIES**

as at December 31, 2003

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments (Notes 5.2a and 6)	1 229	1 078
Claims from employers receivable	2 309	2 612
Accounts receivable	<u>16</u>	<u>69</u>
	<u>3 554</u>	<u>3 759</u>
LIABILITIES		
Outstanding cheques less cash on hand	213	183
Claims payable to employees	<u>3 341</u>	<u>3 576</u>
	<u>3 554</u>	<u>3 759</u>

On behalf of the Board of Directors,
 André Ménard
 Normand Pelletier

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**BACK PAY FUND**

CHANGES IN ASSETS
for the year ended December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
SOURCE OF FUNDS		
Claims collected from employers	2 432	5 196
Increase in outstanding cheques less cash on hand	30	
Investment income	<u>30</u>	<u>17</u>
	<u>2 492</u>	<u>5 213</u>
USE OF FUNDS		
Decrease in outstanding cheques less cash on hand		16
Claims paid to employees	2 777	2 150
Transfer to the General Fund of collected claims payable to employees who remain unidentified after three years	<u>(80)</u>	<u>160</u>
	<u>2 697</u>	<u>2 326</u>
(DECREASE) INCREASE IN ASSETS	(205)	2 887
OPENING ASSETS	<u>3 759</u>	<u>872</u>
CLOSING ASSETS	<u><u>3 554</u></u>	<u><u>3 759</u></u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**EMPLOYER CONTRIBUTIONS FUND****ASSETS AND LIABILITIES**

as at December 31, 2003

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments (Notes 4, 5.2a and 6)	1 610	1 314
Advances on contributions	130	130
Employer contributions receivable	<u>391</u>	<u>80</u>
	<u>2 131</u>	<u>1 524</u>
LIABILITIES		
Accounts payable	7	14
Contributions refundable	<u>2 124</u>	<u>1 510</u>
	<u>2 131</u>	<u>1 524</u>

On behalf of the Board of Directors,
 André Ménard
 Normand Pelletier

CHANGES IN ASSETS
 for the year ended December 31, 2003
 (in thousands of dollars)

	<u>2003</u>	<u>2002</u>
SOURCE OF FUNDS		
Contributions collected	<u>9 003</u>	<u>8 665</u>
USE OF FUNDS		
Contribution refunds	8 389	8 834
Decrease in accounts payable	<u>7</u>	<u>3</u>
	<u>8 396</u>	<u>8 837</u>
INCREASE (DECREASE) OF ASSETS	607	(172)
ASSETS, BEGINNING OF YEAR	<u>1 524</u>	<u>1 696</u>
ASSETS, END OF YEAR	<u>2 131</u>	<u>1 524</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**UNION ASSESSMENT FUND****ASSETS AND LIABILITIES**

as at December 31, 2003

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments (Notes 4, 5.2a and 6)	5 711	4 054
Advances on contributions	1 506	1 311
Employee contributions receivable	<u>3 488</u>	<u>3 233</u>
	<u>10 705</u>	<u>8 598</u>
LIABILITIES		
Outstanding cheques less cash on hand	440	129
Accounts payable	69	62
Assessments to be remitted	<u>10 196</u>	<u>8 407</u>
	<u>10 705</u>	<u>8 598</u>

On behalf of the Board of Directors,
 André Ménard
 Normand Pelletier

CHANGES IN ASSETS
 for the year ended December 31, 2003
 (in thousands of dollars)

	<u>2003</u>	<u>2002</u>
SOURCE OF FUNDS		
Assessments collected	49 106	44 009
Increase in advances on contributions	195	
Increase in outstanding cheques less cash on hand and accounts payable	<u>318</u>	
	<u>49 619</u>	<u>44 009</u>
USED OF FUNDS		
Assessments remitted	47 512	43 322
Decrease in advances on contributions		5
Decrease in outstanding cheques less cash on hand and accounts payable		<u>139</u>
	<u>47 512</u>	<u>43 466</u>
INCREASE IN ASSETS	2 107	543
ASSETS, BEGINNING OF YEAR	<u>8 598</u>	<u>8 055</u>
ASSETS, END OF YEAR	<u>10 705</u>	<u>8 598</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**FONDS DE CONTRIBUTIONS SECTORIELLES RÉSIDENTIELLES**
BALANCE SHEET
 as at December 31, 2003
 (in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments (Notes 5.2a and 6)	63	38
Employer contributions receivable	<u>143</u>	<u>111</u>
	<u>206</u>	<u>149</u>
LIABILITY		
Contributions payable	<u>206</u>	<u>149</u>
On behalf of the Board of Directors, André Ménard Normand Pelletier		

CHANGES IN ASSETS
 for the year ended December 31, 2003
 (in thousands of dollars)

	<u>2003</u>	<u>2002</u>
SOURCE OF FUNDS		
Employer contributions	700	587
USED OF FUNDS		
Payment of contributions	<u>643</u>	<u>438</u>
INCREASE IN ASSETS	57	149
ASSETS, BEGINNING OF YEAR	<u>149</u>	<u>149</u>
ASSETS, END OF YEAR	<u>206</u>	<u>149</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SPECIAL COMPENSATION FUND**

BALANCE SHEET
as at December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments (Notes 4, 5.2a and 6)	4 058	2 744
Employer contributions receivable	<u>1 906</u>	<u>1 215</u>
	<u>5 964</u>	<u>3 959</u>
LIABILITIES		
Outstanding cheques less cash on hand	1	5
Accounts payable	3	2
Compensation payable to employees	<u>1 197</u>	<u>972</u>
	1 201	979
EQUITY	<u>4763</u>	<u>2 980</u>
	<u>5 964</u>	<u>3 959</u>

On behalf of the Board of Directors,
André Ménard
Normand Pelletier

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SPECIAL COMPENSATION FUND**

CHANGES IN EQUITY
for the year ended December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
SOURCE OF FUNDS		
Employer contributions	2 058	1 841
Compensation recovered	1 104	1 260
Penalties	<u>168</u>	<u>236</u>
	<u>3 330</u>	<u>3 337</u>
USE OF FUNDS		
Compensation paid to employees	<u>1 547</u>	<u>1 584</u>
INCREASE IN EQUITY	1 783	1 753
EQUITY, BEGINNING OF YEAR	<u>2 980</u>	<u>1 227</u>
EQUITY, END OF YEAR	<u><u>4 763</u></u>	<u><u>2 980</u></u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**ELIGIBILITY FUND****BALANCE SHEET**
as at December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments and accrued revenue (Notes 5.2a and 6)	2 452	2 092
Employer contributions receivable	<u>85</u>	<u>64</u>
	<u>2 537</u>	<u>2 156</u>
LIABILITIES		
Employee compensation payable	14	8
EQUITY (Note 10)	<u>2 523</u>	<u>2 148</u>
	<u>2 537</u>	<u>2 156</u>

On behalf of the Board of Directors,
André Ménard
Normand Pelletier

CHANGES IN EQUITY
for the year ended December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
SOURCE OF FUNDS		
Employer contributions	504	445
Investment income	<u>67</u>	<u>35</u>
	571	480
USED OF FUNDS		
Assessments remitted to employees	<u>196</u>	<u>169</u>
INCREASE IN EQUITY	375	311
EQUITY, BEGINNING OF YEAR	<u>2 148</u>	<u>1 837</u>
EQUITY, END OF YEAR	<u>2 523</u>	<u>2 148</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

TRAINING PLAN FUND – WORK SECTORS

BALANCE SHEET
as at December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments and accrued revenue (Notes 5.2a and 6)	117 603	107 318
Employer contributions receivable	1 296	1 288
Prepaid training activity expenses	675	218
Reusable training materials	<u>1 255</u>	<u>779</u>
	<u><u>120 829</u></u>	<u><u>109 603</u></u>
LIABILITIES		
Outstanding cheque less cash on hand	40	102
Accounts payable	21	23
Training activities payable	<u>2 688</u>	<u>1 461</u>
	<u>2 749</u>	<u>1 586</u>
EQUITY	<u>118 080</u>	<u>108 017</u>
	<u><u>120 829</u></u>	<u><u>109 603</u></u>

On behalf of the Board of Directors,
André Ménard
Normand Pelletier

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**TRAINING PLAN FUND – WORK SECTORS**

CHANGES IN EQUITY
for the year ended December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
SOURCE OF FUNDS		
Employer contributions	17 871	16 358
Investment income	<u>6 440</u>	<u>(1 886)</u>
	<u>24 311</u>	<u>14 472</u>
USED OF FUNDS		
Cost of training activities	8 754	8 382
Training incentives	3 741	4 411
Contribution to C.G.U.F.F.*	779	1 428
Expenses charged by the General Fund	<u>974</u>	<u>900</u>
	<u>14 248</u>	<u>15 121</u>
INCREASE (DECREASE) IN EQUITY	10 063	(649)
EQUITY, BEGINNING OF YEAR	<u>108 017</u>	<u>108 666</u>
EQUITY, END OF YEAR	<u><u>118 080</u></u>	<u><u>108 017</u></u>

* Training Fund use management committee

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**TRAINING PLAN FUND - RESIDENTIAL SECTOR****BALANCE SHEET**

as at December 31, 2003

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Investments and accrued revenue (Notes 5.2a and 6)	19 824	17 279
Employer contributions receivable	<u>290</u>	<u>187</u>
	<u>20 114</u>	<u>17 466</u>
LIABILITIES		
Accounts payable	5	5
Training activities payable	<u>1</u>	<u>5</u>
	6	5
EQUITY	<u>20 108</u>	<u>17 461</u>
	<u>20 114</u>	<u>17 466</u>

On behalf of the Board of Directors,
 André Ménard
 Normand Pelletier

CHANGES IN EQUITY
 for the year ended December 31, 2003
 (in thousands of dollars)

	<u>2003</u>	<u>2002</u>
SOURCE OF FUNDS		
Employer contributions	4 300	3 541
Investment income	<u>1 108</u>	<u>(259)</u>
	<u>5 408</u>	<u>3 282</u>
USE OF FUNDS		
Cost of training activities	1 127	612
Training incentives	845	127
Contribution to the Training Plan committee	553	481
Expenses charged by the General Fund	<u>236</u>	<u>197</u>
	<u>2 761</u>	<u>1 417</u>
INCREASE IN EQUITY	2 647	1 865
EQUITY, BEGINNING OF YEAR	<u>17 461</u>	<u>15 596</u>
EQUITY, END OF YEAR	<u>20 108</u>	<u>17 461</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SUPPLEMENTAL PENSION PLAN FUND****NET ASSETS AVAILABLE FOR BENEFITS**

as at December 31, 2003

(in thousands of dollars)

	2003				2002
	General account	Comple- mentary account	Pensioners' account	Total	Total
ASSETS					
Investments					
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 5.1)	2 983 724	1 242 800	3 240 487	7 467 011	6 589 154
Investments and accrued interest (Note 5.2b)	31 431	29 327	63 075	123 833	110 330
	<u>3 015 155</u>	<u>1 272 127</u>	<u>3 303 562</u>	<u>7 590 844</u>	<u>6 699 484</u>
Accounts receivable					
Employee contributions	8 238	8 043		16 281	15 046
Employer contributions receivable	17 869			17 869	15 012
General Fund transfer receivable			10 727		
Complementary account transfer receivable			2 308		
	<u>26 107</u>	<u>8 043</u>	<u>13 035</u>	<u>34 150</u>	<u>30 058</u>
	<u>3 041 262</u>	<u>1 280 170</u>	<u>3 316 597</u>	<u>7 624 994</u>	<u>6 729 542</u>
LIABILITIES					
Outstanding cheques less cash on hand	267		(30)	237	422
Accounts payable	499	161		660	553
Contributions repayable after retirement		34 470		34 470	25 138
Pensions and lump-sum benefits payable	6 090	1 906	1 174	9 170	10 286
Transfer to the pensioners' accounts	10 727	2 308			
	<u>17 583</u>	<u>38 845</u>	<u>1 144</u>	<u>44 537</u>	<u>36 399</u>
NET ASSETS AVAILABLE FOR BENEFITS (Note 11)	<u>3 023 679</u>	<u>1 241 325</u>	<u>3 315 453</u>	<u>7 580 457</u>	<u>6 693 143</u>

On behalf of the Board of Directors,
André Ménard
Normand Pelletier

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SUPPLEMENTAL PENSION PLAN FUND**

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended December 31, 2003
(in thousands of dollars)

	2003				2002
	General account	Comple- mentary account	Pensioners' account	Total	Total
INCREASE IN ASSETS					
Employee contributions (Note 11.c)	85 440	110 136		195 576	168 189
Employer contributions (Note 11.c)	232 764			232 764	195 832
Contributions after retirement		26 701		26 701	25 202
Earnings of funds entrusted to the Caisse de dépôt et placement du Québec	108 247	44 555	125 739	278 541	284 631
Other interest income	1 224	542	542	2 308	685
Transfer from the general account			106 780		
Transfer from the complementary account			18 699		
Change in the fair value of investments	259 087	110 046	301 122	670 255	
	<u>686 762</u>	<u>291 980</u>	<u>552 882</u>	<u>1 406 145</u>	<u>674 539</u>
DECREASE IN ASSETS					
Lump-sum benefits and contribution refunds	23 449	7 381	438 730	469 560	431 633
Repayment of hours after retirement		34 369		34 369	25 491
Charge of administrative expenses by the General Fund	13 998	192		14 190	12 136
Transfer to the pensioners' accounts	106 780	18 699			
Administrative expenses	712			712	526
Change in the fair value of investments					1 057 592
	<u>144 939</u>	<u>60 641</u>	<u>438 730</u>	<u>518 831</u>	<u>1 527 378</u>
NET INCREASE (DECREASE) FOR THE YEAR	541 823	231 339	114 152	887 314	(852 839)
NET ASSETS AVAILABLE FOR BENEFITS – BEGINNING OF YEAR	<u>2 481 856</u>	<u>1 009 986</u>	<u>3 201 301</u>	<u>6 693 143</u>	<u>7 545 982</u>
NET ASSETS AVAILABLE FOR BENEFITS– END OF YEAR	<u>3 023 679</u>	<u>1 241 325</u>	<u>3 315 453</u>	<u>7 580 457</u>	<u>6 693 143</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**INSURANCE PLANS FUND**
BALANCE SHEET
 as at December 31, 2003
 (in thousands of dollars)

	2003			2002
	Basic insurance plans fund	Supplemental insurance plans fund	Total	Total
ASSETS				
Investments and accrued revenue (Notes 5.2a and 6)	233 688	28 665	262 353	239 587
Employer contributions	11 998	1 690	13 688	12 006
	<u>245 686</u>	<u>30 355</u>	<u>276 041</u>	<u>251 593</u>
LIABILITIES				
Outstanding cheques less cash on hand	1 673		1 673	4 249
Claims payable	386		386	684
Accounts payable	4 242	26	4 268	3 582
Provision for eventual profits	37 565	2 811	40 376	34 351
Unused voluntary insurance contributions	6 100		6 100	1 415
Unused optional insurance contributions	139 079	8 931	148 010	127 858
Actuarial liability (Note 12)	65 223		65 223	63 499
	<u>254 268</u>	<u>11 768</u>	<u>266 036</u>	<u>235 638</u>
EQUITY				
Reserve linked to health management program (Note 13)				1 066
Unappropriated equity (Note 14)	(8 582)	18 587	10 005	14 889
	<u>(8 582)</u>	<u>18 587</u>	<u>10 005</u>	<u>15 955</u>
	<u>245 686</u>	<u>30 355</u>	<u>276 041</u>	<u>251 593</u>

On behalf of the Board of Directors,
 André Ménard
 Normand Pelletier

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**INSURANCE PLANS FUND****CHANGES IN EQUITY**

for the year ended December 31, 2003
(in thousands of dollars)

	2003			2002
	Basic insurance plans fund	Supplemental insurance plans fund	Total	Total
SOURCE OF FUNDS				
Employer contributions	135 116	9 275	144 391	120 173
Optional employee contributions	5 839		5 839	7 299
Decrease in actuarial liabilities				66 342
Premiums received from supplemental insurance plans	6 202			
Investment income	12 127	1 496	13 623	(4 421)
	<u>159 284</u>	<u>10 771</u>	<u>163 853</u>	<u>189 393</u>
USE OF FUNDS				
Insurance premiums paid to basic plans		6 202		
Expenses charged by the General Fund		156	156	121
Claims	155 790		155 790	146 267
Tax on capital	3 250	191	3 441	2 951
Management fees for claims and premiums	2 667		2 667	1 853
Increase in provisions pour eventual benefits	5 501	524	6 025	5 446
Increase in actuarial liabilities	1 724		1 724	
Increase in unused contributions				58 651
	<u>168 932</u>	<u>7 073</u>	<u>169 803</u>	<u>215 289</u>
(DECREASE) INCREASE IN EQUITY	(9 648)	3 698	(5 950)	(25 896)
EQUITY, BEGINNING OF YEAR	<u>1 066</u>	<u>14 889</u>	<u>15 955</u>	<u>41 851</u>
EQUITY, END OF YEAR	<u>(8 582)</u>	<u>18 587</u>	<u>10 005</u>	<u>15 955</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Commission de la construction du Québec was established by the Act respecting labour relations, vocational training and manpower management in the construction industry (R.S.Q., c. R-20). It is responsible for applying collective agreements and fringe-benefit plans and managing vocational training and manpower in the construction industry.

To this end, the Commission administers nine trust funds, the Supplemental Pension Plan Fund and the Insurance Plans Fund. The General Fund was established to report on the Commission's operations related to the application of the collective agreements concluded under the Act respecting labour relations, vocational training and manpower management in the construction industry. This includes the administration of any complementary social benefits plan and other functions conferred on the Commission by the Act.

Under federal and provincial income tax legislation, the Commission is not subject to income tax.

2. PURPOSE AND DESCRIPTION OF THE TRUST FUNDS AND PLANS ADMINISTERED BY THE COMMISSION

2.1 Purpose of the trust funds

a) **Holiday and Vacation Pay Fund**

This fund reports on holiday and vacation pay and interest earned on behalf of employees of the construction industry in accordance with the applicable collective agreements.

b) **Back Pay Fund**

This fund reports on salary claims made by the Commission on behalf of construction industry employees under section 81 of the Act respecting labour relations, vocational training and manpower management in the construction industry.

c) **Employer Contributions Fund**

This fund reports on employer contributions on behalf of the employers' association under section 40 of the Act respecting labour relations, vocational training and manpower management in the construction industry.

d) **Union Assessment Fund**

This fund reports on the union assessment deducted from the salaries of employees of the construction industry under section 38 of the Act respecting labour relations, vocational training and manpower management in the construction industry.

e) **Residential Sector Contributions Fund**

This fund has been set up to report on employer contributions designed to allow employers and unions to bring on-line, harmoniously implement and disseminate applicable work conditions, to gauge their relevance and effectiveness and to undertake any other approach and analysis to promote closer, more concerted relations between the parties in accordance with the collective agreement governing the residential sector of the construction industry.

f) **Special Compensation Fund**

This fund reports on employer contributions used to compensate construction industry employees for the loss of wages and fringe benefits as a result of employer insolvency or when called on for jury duty, in accordance with the collective agreements for employees of the construction industry.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
 December 31, 2003
 (in thousands of dollars)

2. PURPOSE AND DESCRIPTION OF THE TRUST FUNDS AND PLANS ADMINISTERED BY THE COMMISSION (cont'd)

2.1 Purpose of the trust funds (cont'd)

g) Eligibility Fund

This fund reports on employer contributions used to compensate employees for the costs incurred to renew their competency certificate issued by the Canadian Welding Bureau, in accordance with the collective agreements for employees of the construction industry. The eligibility funds for mechanics, locksmiths, erectors, linemen, reinforcing steel erectors, electricians, tinsmiths, boilermakers, pipefitters and pipe welders have been grouped for the purpose of financial statement presentation.

h) Training Plan Fund – Institutional-Commercial, Industrial, Civil Engineering and Public Works Sector

This fund reports on employer contributions used to finance the training plan fund for the institutional-commercial, industrial, civil engineering and public works sector, in accordance with the collective agreements for employees of the construction industry.

i) Training Plan Fund – Residential Sector

This fund records the employer contributions used to finance the training plan fund for the residential sector, in accordance with the collective agreements for employees of the construction industry.

2.2 Description of the supplemental pension plan

The following description of the supplemental pension plan for employees of the Québec construction industry is given for information purposes. For more complete information concerning this plan, please consult the Regulation respecting complementary social benefits plans in the construction industry (R-20, r.14.01) published in the Gazette officielle du Québec.

a) General information

The supplemental pension plan is a defined-contribution and benefit interenterprise pension plan. It was established by the fringe benefits committee for the construction industry to replace previous plans, effective January 1, 1976. Under the plan, contributions are paid by employers and participants. The plan is registered in accordance with the Supplemental Pension Plans Act (R.S.Q., c. R-15.1), under number 25299.

A pension fund was established to collect employee and employer contributions to cover the cost of benefits payable under the supplemental pension plan.

The fund is comprised of three separate accounts: the general account, the complementary account and the pensioners' account.

The general account is funded by employer and employee contributions paid according to a general formula applicable to all participants. It covers the expenses charged by the General Fund regarding the administration of the supplemental pension plan, the basic insurance plans and the other administrative expenses of the pensioners' account. The complementary account is funded by contributions paid by participants according to specific formulas based on the trade or occupation.

The general account is a defined-benefit provision and provides for the accumulation of pension benefits on the basis of the adjusted number of hours worked. The complementary account is a defined-contribution provision and the pension payable is equal to the amount of the basic pension corresponding to the accumulated retirement value of contributions on the date benefits become payable.

These accounts provide for the payment of death and severance benefits for non-retired contributors. When a contributor retires, a portion of assets from the general and complementary accounts is transferred to the pensioners' account to provide for the lifetime annuity payable to the pensioner or the pensioner's spouse.

The pensioners' account is augmented by revenues generated by its own assets.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

2. PURPOSE AND DESCRIPTION OF THE TRUST FUNDS AND PLANS ADMINISTERED BY THE COMMISSION (cont'd)

2.2 Description of the supplemental pension plan (cont'd)

b) Funding

Within the meaning of the Supplemental Pension Plans Act (R.S.Q., c. R-15.1), there is no plan promoter since the plan was created by the Regulation respecting complementary social benefit plans in the construction industry (R-20, r. 14.01). This Regulation is designed to enact clauses of construction industry collective agreements, which the Commission is responsible for enforcing. In keeping with section 118 of this Regulation, every year the Commission has the supplemental pension plan evaluated for Québec construction industry employees by an independent actuary. The evaluation is effective as of December 31 each year. The approach advocated to offset the effects of fluctuating asset yields and adjustments in economic and demographic assumptions is the use of a reserve for economic fluctuations for the general account and a reserve for unfavourable gaps for the pensioners' accounts.

The objectives of the actuarial evaluation are: recommend the base pension level applicable for the year following the evaluation's effective date, recommend an adjustment, where applicable, in the basic pension accumulated and pensions being paid out at the evaluation's effective date and recommend a supplement percentage level applicable to new beneficiaries for the year following the evaluation's effective date. This evaluation is based on assumptions determined by actuaries outside the Commission (See Note 11a).

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at the age of 65, or at the age of 60 if the sum of their age and hours worked divided by 1 400 is equal to or higher than 70, or at the age of 55 if the sum of their age and hours worked divided by 1400 is equal to or higher than 80 and the sum of their age and years of service is equal to or higher than 80.

In the case of contributors who are 55 years of age and the sum of their age and hours worked divided by 1 400 is equal to or higher than 80 but the sum of their age and years of service is less than 80, only the portion of the pension payable for hours worked after 1991 is reduced by 1/4% per month for the months between the month closest to that where the sum of their age and years of service is 80 if they continued to accumulate years of service and the month they turn 60.

Contributors who have accumulated at least 2 800 hours of work are entitled to an early retirement pension with actuarial reduction at the age of 55, or at the age of 50 if the sum of their age and hours worked divided by 1 400 is equal to or greater than 60.

The pension is equal to the total of the pension payable under the general account, plus the related supplement, and the pension payable under the complementary account.

The pension payable under the general account is equal to the basic pension resulting from the contributor's adjusted hours worked according to the basic pension rates stipulated in Schedule II of the Regulation. No supplement is applicable to buy-outs that occurred in 2003 (12.5% in 2002).

The pension payable under the complementary account is equal to the basic pension determined by the accumulated retirement value of contributions, including interest, upon the contributor's retirement.

Contributors who retire before the age of 65 may choose to receive an enriched annuity in order to subsequently receive a reduced pension at the age of 65.

Pensions, pension rates per 1 000 adjusted hours worked and the supplemental pension rate are subject to annual adjustments determined by the Commission following an actuarial valuation of the supplemental pension plan.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
 December 31, 2003
 (in thousands of dollars)

2. PURPOSE AND DESCRIPTION OF THE TRUST FUNDS AND PLANS ADMINISTERED BY THE COMMISSION (cont'd)

2.2 Description of the supplemental pension plan (cont'd)

d) Disability pension

If a contributor who is at least 50 years of age and has accumulated 21 000 hours of work becomes totally disabled, he/she is entitled to receive a disability pension beginning the 53rd week following the date on which disability began. Where applicable, the amount of the pension payable under the general account is reduced by 1/4% per month between the date of retirement and the closest date to when the contributor would have been eligible for a pension without any actuarial reduction. The disability pension continues to be payable even if there is no longer disability.

e) Death benefits

If a contributor dies before retiring and before accumulating 2 800 hours of work, the eligible surviving spouse receives a lump-sum payment equal to the accumulated retirement value of contributions, to the general and complementary accounts. If the contributor has accumulated at least 2 800 hours, the eligible surviving spouse receives a lump-sum payment equal to the actuarial value of the contributor's accrued pension.

When a retiree dies before having received 60 monthly instalments, the spouse receives a pension equal to 100% of the pension the retiree received until a total of 60 monthly instalments have been paid to the retiree and the spouse. After this time, the pension payable to the spouse is reduced to 60% of the pension received by the retiree (50% if, at the time the contributor retired, the spouse, renounced the 60% joint life annuity).

When a retiree dies after having received 60 monthly instalments, the spouse receives a pension equal to 60% of the pension the retiree received (50% if, at the time the contributor retired, the spouse, renounced the 60% joint life annuity).

If a retiree dies without a spouse and before having received 60 monthly instalments, the designated beneficiary receives a lump-sum benefit equal to the actuarial value of the balance of the 60 monthly instalments guaranteed at the time of retirement.

f) Severance benefits

Contributors who have not reached normal retirement age are entitled to severance benefits when 24 consecutive months have gone by without any hours being credited to their account.

Contributors who have accumulated less than 2 800 hours of work are entitled to a lump-sum payment equal to the accumulated value of contributions to the general and complementary accounts.

Contributors who have accumulated at least 2 800 hours of work are entitled to a deferred pension, payable as of the contributor's normal retirement date or early retirement date, depending on the plan provisions.

However, until the contributor becomes eligible for normal or early retirement, he/she can ask to have the actuarial value of the deferred pension or the amount of the lump-sum payment to which he/she is entitled transferred to another authorized retirement savings plan.

g) Contributions after retirement

Contributions received for a participant whose receives a retirement pension or has passed normal retirement age are reimbursed during the following year.

h) Supplemental Pension Plans Act

The Act to amend the Supplemental Pension Plans Act (2000, c. 41), which came into effect on January 1, 2001, amended the Supplemental Pension Plans Act (R.S.Q., c. R15.1). The supplemental pension plan for Québec construction industry employees administered by the Commission is governed by this statute. The Commission has entered into talks with the Régie des rentes du Québec regarding the application of this statute to this plan, since the implementation of several of its provisions would cause

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

2. PURPOSE AND DESCRIPTION OF THE TRUST FUNDS AND PLANS ADMINISTERED BY THE COMMISSION (cont'd)

2.2 Description of the supplemental pension plan (cont'd)

h) Supplemental Pension Plans Act (cont'd)

excessive problems, given the specific characteristics of the pension plan. These discussions led to the publication, on December 30, 2003, of a draft regulation designed to withdraw the supplemental pension plan for construction industry employees from certain provisions of the said statute or to postpone its implementation. However, certain elements regarding plan financing and solvability continue to be discussed.

Consequently, actuarial valuations prepared for the Québec construction industry employees' supplemental pension plan as at December 31, 2001, 2002 and 2003 do not reflect the amendments required by this Act.

2.3 Purpose of the insurance plans

A group insurance fund was established to collect premiums and provide for the payment of benefits and compensation under the insurance plans, as well as premiums required to uphold all insurance contracts underwritten by the Commission in relation to complementary social benefits plans.

Supplemental group insurance funds were established to collect the additional contributions for employees who ply a specific trade or group of trades and to provide for the payment of premiums and expenses related to the supplemental insurance plan.

As at December 31, 2003, the following trades and occupations participated in the supplemental group insurance plans: electricians, roofers, tinsmiths, pipefitters, linemen, fire protection mechanics, refrigeration mechanics, worksite mechanics and trowel trades (bricklayers, cement finishers, plasterers and tile setters).

Since 1998, the collective contingency fund for basic insurance plans pays for the additional coverage provided for in the supplemental plan, in exchange for payment of an insurance premium for each person insured under such a supplemental plan. This premium is established at the beginning of the year following the coverage period.

3. ACCOUNTING POLICIES

The financial statements of the Commission were prepared by management in accordance with the accounting policies disclosed below. These statements include amounts based on best estimates and judgements. The cash flow statements of the trust funds and insurance plans have not been presented since they would not provide additional information that is useful for understanding the fiscal year's cash flows.

3.1 Consolidation perimeter

The financial statements of the trust funds, the supplemental pension plan and insurance plans are not consolidated to the General Fund's financial statements since, under legislation, regulations and collective agreements, the funds and plans constitute separate legal or accounting trusts.

3.2 Fair value

The fair value of financial instruments other than investment is equivalent to their book value, given that they mature in the near future.

3.3 General Fund, Trust Funds and Insurance Plans

a) Investments

Investments are recorded at cost, except for bonds, which are recorded at amortized cost. The fair value of short-term investments is equivalent to their cost.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

3. ACCOUNTING POLICIES (cont'd)**3.3 General Fund, Trust Funds and Insurance Plans (cont'd)****b) Currency conversion**

The cost of investments in market issues is converted at the exchange rate in effect the day they were acquired.

The fair value of the investments is converted to Canadian dollars at the exchange rate in effect at the end of the fiscal year.

Investment income is converted at the exchange rate in effect on the transaction date.

c) Fixed assets

Fixed assets are recorded at cost and depreciated over their expected service life on a straight-line basis at the following annual rates:

Buildings	2 1/2%
Building fit-up	20%
Office furniture and equipment	10%
Data processing equipment	20%
Computer software	33 1/3%
Leasehold improvements	25%

d) Deferred income

The inducements granted the Commission by lessors, for the rental of administrative offices, are posted to deferred income and amortized according to the straight-line method over the duration of the leases, i.e. 5 years. The amortization is recorded as a reduction in the rental cost.

e) Cash and cash equivalents

The Commission's policy consists in presenting under cash and cash equivalents bank balances and bank overdrafts and short-term investments that can easily be converted and that mature within three months.

f) Future fringe benefits

The Commission offers its employees defined-benefit pension plans and complementary pension benefits.

For defined-benefit plans, the Commission has adopted the following accounting policies:

The cost of pension benefits and complementary pension benefits earned by employees is established using actuarial calculations according to the projected benefit method pro rated on year of services and charged to results as the services are rendered by the employees. The calculations reflect management's assumptions as to the most probable projected yield of pension plan investments, wage progression, employees' retirement age, contributor mortality rates and projected health care costs.

For the purposes of determining the yield projected for the pension plan assets, these assets are evaluated at their fair value.

The surplus of the net actuarial gain or the net actuarial loss over 10% of the obligation as accrued benefits, or over 10% of the fair value of the plan's assets, if the latter amount is higher, is amortized over the remaining duration of the average activity of active employees.

g) Transfers and charges

The Commission sets General Fund charges annually at the rate it deems required to cover the administrative expenses of the training, supplemental pension plan and insurance plans funds.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

3. ACCOUNTING POLICIES (cont'd)

3.3 General Fund, Trust Funds and Insurance Plans (cont'd)

g) Transfers and charges (cont'd)

The administrative costs for certain trust funds are not charged but assumed by the General Fund.

For its administration, the Commission transfers interest from the Holiday and Vacation Pay Fund and unidentified compensation of the Holiday and Vacation Pay Fund whose beneficiaries could not, as at January 1 of a given year, be identified over the past three years, and the amounts held in trust for wage-related claims in favour of employees whose identity could not, as at December 31 of a given year, be identified over the past three years.

h) Payments to employees from the Special Compensation Fund

Compensation is entered upon proof of employer insolvency.

i) Reusable training materials

The costs incurred by the Commission for reusable training materials are recorded to expenditures using the straight-line method in keeping with the duration of the agreement between the Commission and the school board. The duration of the agreement is 3 or 10 years.

3.4 Supplemental Pension Plan Fund

a) Presentation

The financial statements are based on the policy of continued operations and present the plan's overall financial position as a separate entity independent of its participants and employers paying into it. They were prepared to help participants and other interested parties learn about the plan's activities during the fiscal year. However, they do not report on the plan's capitalization needs or benefit security for individual participants.

b) Investments

Investments are recorded at fair value. The fair value of participating units in individual funds of the Caisse de dépôt et placement du Québec is determined by the latter.

4. INVESTMENT INCOME - GENERAL FUND

The Commission's administrative regulations authorize it to use the interest earned on investments of the Back Pay, Employer Contributions, Union Assessment and Special Compensation funds for its administration. Income from these fund investments allocated to the General Fund and those from investments of the General Fund break down as follows:

	2003	2002
Employer Contributions Fund	30	18
Union Assessment Fund	108	40
Special Compensation Fund	101	29
	239	87
General Fund	572	400
	811	487

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

5. INVESTMENTS**5.1 Funds Entrusted to the Caisse de dépôt et placement du Québec - at fair value**

Supplemental pension plan funds entrusted to the Caisse de dépôt et placement du Québec break down as follows:

	2003	2002
General account		
Advances from the Caisse de dépôt et placement du Québec **	(3 000)	(124 999)
Participation deposits ***	2 983 860	2 756 429
Revenue receivable from the individual fund	2 864	5 949
	<u>2 983 724</u>	<u>2 637 379</u>
Complementary account		
Advances from the Caisse de dépôt et placement du Québec **	1	(14 999)
Participation deposits ***	1 241 551	1 047 000
Revenue receivable from the individual fund	1 248	2 184
	<u>1 242 800</u>	<u>1 034 185</u>
Pensioners' account		
Demand deposit *	(27 001)	125 001
Participation deposits ***	3 260 709	2 785 788
Revenue receivable from the individual funds	6 779	6 801
	<u>3 240 487</u>	<u>2 917 590</u>
	<u>7 467 011</u>	<u>6 589 154</u>

* In the General Fund of the Caisse.

** Advances at the daily call rate plus 5 basis points, repayable on demand.

*** The participating units in individual funds of the Caisse, held for each supplemental insurance plan, are expressed in units. These units are refundable with advance notice according to the Caisse's terms and conditions of settlement, at the fair value of the net equity of the individual fund at the end of each quarter. At the end of each quarter for an individual fund, the Caisse allocates to the Commission the net investment income, gains and losses resulting from the sale of investments.

5.2 Investments and accrued revenue**a) General Fund, trust funds and insurance plans - at cost**

	2003		2002	
	Cost	Fair value	Cost	Fair value
Cash on hand	32 243	32 243	28 202	28 202
Term deposits ^a	138 116	138 116	100 288	100 288
Bonds ^b	248 919	257 544	228 124	235 503
Shares ^c	186 862	208 835	174 129	160 670
Broker's account ^d	(1 378)	(1 378)	580	580
Accrued interest	3 378	4 824	2 811	2 154
	<u>608 140</u>	<u>640 184</u>	<u>534 134</u>	<u>527 397</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

5. INVESTMENTS (cont'd)**5.2 Investments and accrued revenue (cont'd)****a) General Fund, trust funds and insurance plans - at cost (cont'd)**

- a Maturing no later than December 30, 2004 at interest rates varying from 2.58% to 2.89%.
 b The weighted average bond term is 5.75 years and the actual rate of return is 4.23%.
 c The cost of US shares is \$54 781 712 compared to a fair value of \$53 514 779. The foreign shares is \$45 823 202 compared to a fair value of \$52 585 060.
 d Corresponds to the broker's margin for the compensation of appreciation or depreciation on futures contracts.

Investments and accrued revenue break down as follows:

	2003	2002
General Fund	29 193	17 611
Holiday and Vacation Pay Fund	164 044	141 019
Back Pay Fund	1 229	1 078
Employer Contributions Fund	1 610	1 314
Union Assessment Fund	5 711	4 054
Residential Sector Contributions Fund	63	38
Special Compensation Fund	4 058	2 744
Eligibility Fund	2 452	2 092
Training Plan Fund - Work Sectors	117 603	107 318
Training Plan Fund - Residential Sector	19 824	17 279
Basic insurance plans	233 688	215 636
Supplemental insurance plans	28 665	23 951
	<u>608 140</u>	<u>534 134</u>

b) Supplemental pension plan - at fair value

	2003		2002	
	Cost	Fair value	Cost	Fair value
Cash on hand	20 562	20 562	19 995	19 995
Term deposits ^a	88 308	88 308	68 534	68 534
Bonds ^b	14 696	14 683	21 456	21 503
Accrued interest	280	280	298	298
	<u>123 846</u>	<u>123 833</u>	<u>110 283</u>	<u>110 330</u>

a Maturing no later than December 30, 2004 at interest rates varying from 2.58% to 2.89%.

b The weighted average bond term is 5.75 years and the actual rate of return is 4.23%.

Investments and accrued interest break down as follows:

	2003	2002
Supplemental pension plan - general account	31 431	17 667
Supplemental pension plan - complementary account	29 327	23 883
Supplemental pension plan - pensioners' account	63 075	68 780
	<u>123 833</u>	<u>110 330</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousands of dollars)

6. OFF-BALANCE SHEET DERIVATIVE FINANCIAL INSTRUMENTS

To manage its investments, the Commission uses various derivative financial instruments for adjustment or covering purposes.

The table below presents the notional reference amounts and fair values of the Commission's derivative financial instruments:

	2003		2002	
	Notional reference amount	Fair value	Notional reference amount	Fair value
Future contracts on stock market indices				
Long position	5 098	297	2 110	(29)
Short position	(4 733)	(221)	(1 911)	42
Forward exchange contracts				
Short position	100 326	2 174	78 198	(2 173)
	<u>100 691</u>	<u>2 250</u>	<u>78 397</u>	<u>(2 160)</u>

The fair value reflects the estimated amounts that the Commission will receive where favourable contracts are settled or will have to pay to terminate unfavourable contracts on the dates the financial data was presented. The Commission's security brokers' or bankers' rates are available for these future contracts on stock market indices and exchange contracts.

The Commission deals only with reputable financial institutions, so that the credit risk is virtually zero. Exchange risks related to investments denominated in foreign currency are covered by forward exchange contracts.

7. FIXED ASSETS

	2003		2002
	Cost	Accumulated depreciation	Net
Land	672		672
Buildings	8 718	5 470	3 248
Building fit-up	2 838	1 745	1 093
Furniture and equipment	7 477	5 346	2 131
Data processing equipment	7 093	4 588	2 505
Computer software	3 309	2 513	796
Leasehold improvements	1 555	794	761
	<u>31 662</u>	<u>20 456</u>	<u>11 206</u>
			<u>10 626</u>

8. BANK BORROWING

The Commission has an authorized credit line with financial institutions that is renewable annually on July 1. At December 31, 2003, the maximum amount the Commission could use was \$7 000 000. Amounts used bear interest at the prime rate.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

9. CASH FLOWS

	2003	2002
Change on non-cash elements of the Working Capital Fund		
Increase in withdrawals receivable	(187)	(1 100)
Change in accounts receivable	351	(1 024)
Increase in subsidy receivable from the Gouvernement du Québec	1 400	5 232
Decrease in prepaid expenses	33	133
Change in accounts payable and accruals	2 294	(476)
Increase in deferred income	133	19
Increase in deferred Gouvernement du Québec subsidy	(3 932)	(3 413)
	<u>92</u>	<u>(629)</u>

The cash and cash equivalents shown in the cash flow statement for the General Fund include the following amounts recorded in the balance sheet:

	2003	2002
Bank overdraft	(477)	4 018
Investment and accrued revenue *	9 374	8 897
	<u>8 897</u>	<u>12 915</u>

* These investments and accrued revenue are those maturing within three months.

The interest and bank charges paid by the Commission totalled \$172 241 (2002: \$205 709).

10. EQUITY OF THE ELIGIBILITY FUNDS

The eligibility funds have been grouped into a single fund for the purpose of financial statement presentation. As at December 31, the equity of each fund is as follows:

	2003	2002
Mechanics	65	73
Locksmiths	75	72
Linemen	30	33
Reinforcing steel erectors	95	70
Electricians	761	655
Tinsmiths	221	182
Boilermakers	168	147
Pipefitters	1 108	916
	<u>2 523</u>	<u>2 148</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

11. OBLIGATIONS RELATED TO BENEFITS**a) Obligations of the Supplemental Pension Plan**

The actuaries Groupe-conseil Aon established the actuarial value of the accumulated benefits of the general and pensioners' accounts using year-end closing information as at January 1, 2003 transmitted by the Commission de la construction du Québec, the plan's administrator. This value was adjusted by projection to December 31, 2003. The actuarial value was determined using the accumulated benefit method and the most probable assumptions, including appropriate margins for unfavourable variances, according to actuaries responsible for the evaluation. According to this method, the commitment correspond to the actuarial value, on the date of evaluation, of the pension claims and other benefits payable based on the accumulated adjusted hours on this date. The complementary account is not concerned since this part of the plan involves defined contributions and liabilities of this account equal the assets.

According to this evaluation, the actuarial value of benefits at December 31, the main components of the change in actuarial values over the fiscal year and the value of the reserves determined in keeping with the Regulation respecting complementary social benefit plans in the construction industry, were as follows:

	2003	2002
General account	3 572 885	3 495 638
Pensioners' account	3 708 563	3 405 453
Actuarial value of accumulated benefits at fiscal year-end	7 281 448	6 901 091
Special reserve taken from general account and equal to the difference between the value of pensioners' account obligations and assets	345 225	348 461
Actuarial value of accrued benefits and reserves at fiscal year-end	7 626 673	7 249 552
	2003	2002
Actuarial value of accrued benefits at the beginning of the fiscal year	6 901 091	6 684 488
Changes made to the Plan		(340 078)
Changes in actuarial assumptions	145 901	239 903
Interest cumulated on benefits	477 065	495 586
Accrued benefits	159 505	180 469
Benefits paid	(495 834)	(447 150)
Transfer from complementary account	22 850	62 388
Loss (gain) of experience	70 870	25 485
Actuarial value of accrued benefits at fiscal year-end	7 281 448	6 901 091

The assumptions used to determine the actuarial value of accrued benefits reflect long-term markets situation forecasts. The most significant long-term actuarial assumptions used for the evaluation are as follows:

	2003	2002
Assets' medium-term yield	6.75%	7.0%
Assets' long-term yield	6.25	6.5

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

11. OBLIGATIONS RELATED TO BENEFITS (cont'd)**b) Actuarial value of net available assets**

The actuarial value of net assets available for benefit service was determined to reflect long-term market trends (in keeping with the assumptions underlying the evaluation of accrued benefits). This evaluation is based on a method according to which the actuarial value of assets is determined on the basis of the difference between the real and hoped-for market values of investments for the past three years. During the actuarial valuation of December 31, 2002, the adjusted value was restricted to 100% of the market value. Compared to the December 31, 2002 evaluation, this method was modified as follows: the adjusted value at December 31, 2003 was restricted to 107% of the market value.

Actuarial present value of assets:

	2003	2002
Net assets available for benefits		
General account	3 023 679	2 481 856
Pensioners' account	3 315 453	3 201 301
	<u>6 339 132</u>	<u>5 683 157</u>
Fair value changes not reflected in actuarial value of net assets	<u>(35 737)</u>	<u>245 828</u>
Actuarial value of net assets available for benefits	<u><u>6 303 395</u></u>	<u><u>5 928 985</u></u>

c) Capitalization policy

The employer's contribution is limited to that determined for the general account. Since the plan came into effect, participants' contribution to the general account has risen from \$0.05 to \$0.80 per hour worked and the employers' contribution varied between \$0.04 and \$2.375 per hour worked. In fiscal 2003, the employer contribution to this same account was \$1.975 per hour worked for an apprentice and \$2.375 per hour worked for a journeyperson. Participants' contribution to the supplementary account varied between \$0.15 and \$3.00 per hour worked since the plan came into effect.

The last actuarial evaluation for capitalization purposes tabled before the Régie des rentes du Québec is that of December 31, 2000. The December 31, 2003 actuarial evaluation shows an uncanceled bond at December 31, 2003 in the amount of \$978 053 000. In keeping with the Supplemental Pension Plans Act (R.S.Q., c. R-15.1), this bond is being capitalized by an amount of \$1.394/hour worked over the total contributions paid up to December 31, 2004. However, this amount will gradually be reduced to \$1.027/hour worked up to December 31, 2017.

12. ACTUARIAL LIABILITIES OF INSURANCE PLANS

In accordance with a self-management system for the insurance plans of employees of the Québec construction industry, the plans assume a limited share of risks, certain insurance guarantees are obtained and the task of settling certain disputes is delegated.

In accordance with sections 100 to 103 of the Regulation respecting complementary social benefits plans in the construction industry, a consulting actuary carried out an actuarial valuation of the plans as at December 31, 2003 to confirm the solvability of the insurance plans.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousands of dollars)

12. ACTUARIAL LIABILITIES OF INSURANCE PLANS (cont'd)

Commitments under the plans were extrapolated to December 31, 2003. The Commission accounted for the required sums as follows:

	2003	2002
Reserve for committed benefits	27 548	26 789
Reserve for disability pensions	37 675	36 710
	<u>65 223</u>	<u>63 499</u>

13. RESERVE FOR HEALTH MANAGEMENT PROGRAM

Since 1998, contributions of 3¢/hour are paid into the basic plan fund in order to gradually set up a health management program. This program provides unconventional insurance coverage targeting prevention, customized measures and rehabilitation in order to rein in the increase in the cost of traditional coverage provided by the plans. The Commission committed to using these contributions to pay for the different current and future components implemented under the program. The cumulative amount of these contributions that were unused as at December 31, 2003 was \$15 354 000 (\$12 359 000 in 2002).

	2003	2002
Opening balance	1 066	9 320
Net increase related to contributions	2 995	3 039
	<u>4 061</u>	<u>12 359</u>
Transfer of unappropriated assets	<u>(4 061)</u>	<u>(11 293)</u>
Opening balance	<u>1 066</u>	<u>1 066</u>

14. EQUITY OF THE SUPPLEMENTAL INSURANCE PLANS

The insurance plans have been grouped into a single plan for the purpose of financial statement presentation. As at December 31, the equity of each plan is as follows:

	2003	2002
Electricians	9 512	8 885
Roofers	817	749
Tinsmiths	975	624
Pipefitters	4 505	3 053
Linemen	970	710
Fire protection mechanics	347	231
Refrigeration mechanics	372	323
Worksite mechanics	253	87
Trowel trades	836	227
	<u>18 587</u>	<u>14 889</u>

15. COMMITMENTS

The Commission is committed to long-term leases for office space expiring on various dates up to October 31, 2008. These leases include a five-year renewal option.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

15. COMMITMENTS (cont'd)

Lease payments for the year ended December 31, 2003, amount to \$1 270 829 (2002: \$1 073 556). The minimum lease payments for the next five years are as follows:

2004	1 215
2005	1 025
2006	456
2007	325
2008	195
	<u>3 216</u>

16. CONTINGENCIES

Legal proceedings against the Commission, in the amount of \$2 202 792, were under way on the date the financial statements were prepared. In some of these proceeding, the Commission's insurers took up its defence. On the basis of the information available, management is of the opinion that it is unlikely that its liability will be considered significant with regard to these proceedings in comparison with the Commission's financial position. Any payment by the Commission, where applicable, will be recorded to the charges for the fiscal year.

17. FRINGE BENEFITS OF COMMISSION DE LA CONSTRUCTION DU QUÉBEC EMPLOYEES

The supplemental pension plan for unionized employees of the Commission de la construction du Québec and the supplemental pension plan for non-unionized Commission employees are defined benefit plans and include guaranteed payments upon retirement and death. All permanent employees must contribute to the plans.

The Commission also offers its retirees defined-benefit health insurance and life insurance plans and retirement bonuses.

According to the actuarial calculations performed for fiscal 2003, the Commission's net charge is as follows:

	Pension plans		Other plans	
	2003	2002	2003	2002
Net charge	2 947	2 918	5 151	3 449

The information concerning the defined-benefit plans, taken collectively, and the liability for the benefits accrued under the plans is as follows at December 31:

	Pension plans		Other plans	
	2003	2002	2003	2002
Obligations for benefits accrued	234 317	222 003	43 121	32 445
Fair value of plan assets	225 467	196 289		
Capitalization situation – surplus (deficit)	(8 850)	(25 714)	(43 121)	(32 445)
Asset (liability) for benefits accrued minus the provision for depreciation in value			(35 466)	(31 422)

Asset for benefits accrued under pension plans as at December 31, 2003 is decreased by a \$33 531 600 provision for a depreciation in value.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

17. FRINGE BENEFITS OF COMMISSION DE LA CONSTRUCTION DU QUÉBEC EMPLOYEES (cont'd)

The significant actuarial assumptions used by the Commission to evaluate its obligations under benefits accrued are the following (weighted average of assumption as at December 31).

	Pension plans		Other plans	
	2003	2002	2003	2002
Capitalization rate	6.50%	6.50%	6.50%	6.50%
Rate of return projected on plan assets, long-term	7.25	7.25		
Remuneration growth rate	4.00	4.00		
	to	to		
	5.00	5.00		

For evaluation purposes, the hypothetical annual growth rate of the cost of health care covered by participant was set at 9% for 2003. According to the assumption chosen, this rate should diminish by 1% annually to reach 5% in 2007 and then remain there.

The other information concerning the Commission's predefined benefit plans is as follows:

	Pension plans		Other plans	
	2003	2002	2003	2002
Employer contributions	2 947	2 918		
Employee contributions	2 275	2 227		
Benefits paid	9 210	8 020	1 108	1 233

18. COMPARATIVE FIGURES

Certain 2002 figures were reclassified for consistency with the presentation adopted in 2003.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

SUPPLEMENTAL PENSION PLAN FOR EMPLOYEES OF THE QUÉBEC CONSTRUCTION INDUSTRY OF QUÉBEC

ACTUARIAL VALUATION AS AT DECEMBER 31, 2003
ACTUARIAL OPINION

The Supplemental Pension Plan for Québec construction industry employees was evaluated at December 31, 2003, based on the May 2003 office consolidation of the Regulation respecting complementary social benefit plans in the construction industry, which represents the Plan's provisions in effect at December 31, 2003, and based on data at January 1, 2003. This actuarial opinion is based on the report entitled "Évaluation actuarielle au 31 décembre 2003" dated November 26, 2003.

We certify that in our opinion,

- a) At December 31, 2003, the plan posted a remaining shortfall of \$16 344 000 and a net deficit of \$978 053 000.
- b) The plan was not completely solvable at December 31, 2003. If the plan were to be dissolved at December 31, 2003, the value of its assets would be less than its commitments.
- c) The employee and employer contributions to the plan, at the average rate of \$3.075 per hour worked in 2004, are sufficient to cover the plan's commitments resulting from the application, for 2004, of the basic pension rate of \$320/\$1 000 adjusted, contributions for amortization of past improvements, funding of the remaining shortfall and the provision for expenditure until the plan's next actuarial valuation:
- d) The amount of the contributions assigned to financing the net deficit is detailed in the following table:

Nature of contribution	Contribution in \$/hour worked	End of amortization period	Current value of amortization contributions at 2003-12-31 (\$000)
Modification – 1990-01-01	0.105	2004-12-31	10 574
Modification – 1991-01-01	0.110	2005-12-31	19 942
Modification – 2000-01-01	0.092	2014-12-31	66 693
Test – 2003-01-01	1.027	2017-12-31	864 500
Test – 2004-01-01	0.060	2006-12-31	16 344
	1.394		978 053

- e) The data on which this valuation is based are adequate and reliable.
- f) The assumptions on which this valuation is based are appropriate.
- g) The actuarial valuation methods used are appropriate.
- h) Given that the plan is an interenterprise pension plan, this valuation meets the requirements of Section 4100 Of the CICA Handbook.

This report and the opinions it contains were produced in accordance with generally accepted actuarial practices.

Claude Lockhead, FICA, FSA
Principal Vice-president

Pierre Guérin, FICA, FSA
Principal Consultant

Montréal, March 17, 2004

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

BASIC INSURANCE PLANS

ACTUARIAL CERTIFICATE CONCERNING THE BASIC INSURANCE PLANS FOR EMPLOYEES OF THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT

The commitments to the basic insurance plans were valued as at December 31, 2003. This valuation is based on the data and costs provided by the Commission.

In our opinion,

- a) At December 31, 2003, the net assets of the basic plans were \$18 033 000 higher than the sum of the commitments for the plans;
- b) The contribution rates foreseen when the valuation report was tabled in December 2003, i.e. \$1.32/hour at April 26, 2003 and \$1.38/hour at April 27, 2003 are sufficient to ensure the solvability of the basic plans until December 31, 2004 and to maintain the contingency fund's capitalization at its maximum value of \$10 000 000 until the end of the first half year of 2004. At December 31, 2004, the contingency fund will be \$4 839 000, under its maximum level.
- c) These contribution rates are insufficient to support the cost of the basic plans. The shortfall was \$0.114/hour the first semester of 2004 and gradually increased to \$0.394/hour by the last semester of 2006.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration in March 22, 2004.

Groupe-conseil Aon
François Boisvenue, FICA, FSA

SUPPLEMENTAL INSURANCE PLAN FOR ELECTRICIANS

ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR ELECTRICIANS WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT

The commitments to the supplemental insurance plan for electricians were valued as December 31, 2003. This valuation is based on the data and costs provided by the Commission.

In our opinion,

- a) At December 31, 2003, the net assets of the supplemental insurance plan for electricians were \$9 935 000 higher than the sum of the commitments for the plan;
- b) The contribution rate of \$0.218/hour until April 26, 2003 and \$0.231/hour as of April 27, 2003 are sufficient to maintain the solvability of the supplemental insurance plan for electricians for the three-year period ending December 31, 2006.
- c) These contribution rates are sufficient to cover plan costs over the next six semesters ending on December 31, 2006. During the first semester of 2006, there is a slight shortfall of \$0.037/hour which gradually rises to \$0.091/hour in the second semester of 2006.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration in March 22, 2004.

Groupe-conseil Aon
François Boisvenue, FICA, FSA

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

SUPPLEMENTAL INSURANCE PLAN FOR ROOFERS

ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR ROOFERS WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT

The commitments to the supplemental insurance plan for roofers were valued as December 31, 2003. This valuation is based on the data and costs provided by the Commission.

In our opinion,

- a) At December 31, 2003, the net assets of the supplemental insurance plan for roofers were \$912 000 higher than the sum of the commitments for the plan;
- b) The contribution rate of \$0.20/hour is sufficient to ensure the solvability of the supplemental insurance plan for roofers for the three-year period ending December 31, 2006.
- c) The contribution rate is sufficient to cover plan costs over the next six semesters. During the first semester of 2004, there is a slight shortfall of \$0.025/hour in the first semester which gradually rises to \$0.061/hour in the last semester of 2006.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration in March 22, 2004.

Groupe-conseil Aon
François Boisvenue, FICA, FSA

SUPPLEMENTAL INSURANCE PLAN FOR TINSMITHS

ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR TINSMITHS WORKING IN THE QUEBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT

The commitments to the supplemental insurance plan for tinsmiths were valued as at December 31, 2003. This valuation is based on the data and costs provided by the Commission.

In our opinion,

- a) At December 31, 2003, the net assets of the supplemental insurance plan for tinsmiths were \$1 115 000 higher than the sum of the commitments for the plan;
- b) The contribution rate of \$0.20/hour is sufficient to maintain the solvability of the supplemental insurance plan for tinsmiths for the three-year period ending December 31, 2006.
- c) This contribution rate is sufficient to cover plan costs until December 31, 2006.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration, in March 22, 2004.

Groupe-conseil Aon
François Boisvenue, FICA, FSA

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SUPPLEMENTAL INSURANCE PLAN FOR REFRIGERATION MECHANICS****ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR REFRIGERATION MECHANICS WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT**

The commitments of the supplemental insurance plan for refrigeration mechanics were evaluated as at December 31, 2003. This valuation is based on the data and costs provided by the Commission.

In our opinion:

- a) At December 31, 2003, the net assets of the supplemental insurance plan for refrigeration mechanics were \$417 000 higher than the sum of the commitments for the plan;
- b) The contribution rate of \$0.15/hour is sufficient to maintain the solvability of the supplemental insurance plan for refrigeration mechanics for the three-year period ending December 31, 2006.
- c) The contribution rate is sufficient to cover plan costs over the next six semesters ending on December 31, 2006. During the first semester of 2004, there is a slight shortfall of \$0.027/hour in the first semester which gradually rises to \$0.052/hour in the last semester of 2006.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration, in March 22, 2004.

Groupe-conseil Aon
François Boisvenue, FICA, FSA

SUPPLEMENTAL INSURANCE PLAN FOR LINEMEN**ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR LINEMEN WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT**

The commitments to the supplemental insurance plan for linemen were valued as at December 31, 2003. This valuation is based on the data and costs provided by the Commission.

In our opinion:

- a) At December 31, 2003, the net assets of the supplemental insurance plan for linemen were \$1 077 000 higher than the sum of the commitments for the plan;
- b) The contribution rate of \$0.40/hour until April 26, 2003 and \$0.50/hour as of April 27, 2003 are sufficient to maintain the solvability of the supplemental plan for linemen for the three-year period ending December 31, 2006.
- c) These contribution rates are sufficient to cover plan costs until December 31, 2006.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration, in March 22, 2004.

Groupe-conseil Aon
François Boisvenue, FICA, FSA

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SUPPLEMENTAL INSURANCE PLAN FOR TROWEL TRADES****ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR TROWEL TRADES WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT**

The commitments of the supplemental insurance plan for trowel trades were evaluated as at December 31, 2003. This valuation is based on the data and costs provided by the Commission.

In our opinion:

- a) At December 31, 2003, the net assets of the supplemental insurance plan for trowel trades were \$988 000 higher than the sum of the commitments for the plan;
- b) The contribution rate of \$0.15/hour is sufficient to maintain the solvability of the supplemental insurance plan for trowel trades for the three-year period ending December 31, 2006.
- c) The contribution rate is sufficient to cover plan costs until December 31, 2006.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration, in March 22, 2004.

Groupe-conseil Aon
François Boisvenue, FICA, FSA

SUPPLEMENTAL INSURANCE PLAN FOR PIPEFITTERS**ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR PIPEFITTERS WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT**

The commitments of the supplemental insurance plan for pipefitters were evaluated as at December 31, 2003. This valuation is based on the data and costs provided by the Commission.

In our opinion:

- a) At December 31, 2003, the net assets of the supplemental insurance plan for pipefitters were \$5 897 000 higher than the sum of the commitments for the plan;
- b) The contribution rate of \$0.368/hour until April 26, 2003 and \$0.381/hour as of April 27, 2003 are sufficient to maintain the solvability of the supplemental insurance plan for pipefitters for the three-year period ending December 31, 2006.
- c) This contribution rate is sufficient to cover plan costs until December 31, 2006.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration, in March 22, 2004.

Groupe-conseil Aon
François Boisvenue, FICA, FSA

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SUPPLEMENTAL INSURANCE PLAN FOR FIRE PROTECTION MECHANICS****ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR FIRE PROTECTION MECHANICS WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT**

The commitments to the supplemental insurance plan for fire protection mechanics were valued as at December 31, 2003. This valuation is based on the data and costs provided by the Commission.

In our opinion:

- a) At December 31, 2003, the net assets of the supplemental insurance plan for fire protection mechanics were \$382 000 higher than the sum of the commitments for the plan;
- b) The contribution rate of \$0.218/hour until April 2006 and of \$0.231/hour as at April 27, 2003 are sufficient to maintain the solvability of the supplemental insurance plan for fire protection mechanics for the three-year period ending December 31, 2006.
- c) This contribution rate is sufficient to cover plan costs until December 31, 2006.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration, in March 22, 2004.

Groupe-conseil Aon
François Boisvenue, FICA, FSA

SUPPLEMENTAL INSURANCE PLAN FOR WORKSITE MECHANICS**ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR WORKSITE MECHANICS WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT**

The commitments to the supplemental insurance plan for worksite mechanics were valued as at December 31, 2003. This valuation is based on the data and costs provided by the Commission.

In our opinion:

- a) At December 31, 2003, the net assets of the supplemental insurance plan for worksite mechanics were \$235 000 higher than the sum of the commitments for the plan;
- b) The contribution rate of \$0.198/hour until April 2006 and of \$0.211/hour as at April 27, 2003 are sufficient to maintain the solvability of the supplemental insurance plan for worksite mechanics for the three-year period ending December 31, 2006.
- c) This contribution rate is sufficient to cover plan costs until December 31, 2006.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration, in March 22, 2004.

Groupe-conseil Aon
François Boisvenue, FICA, FSA

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the General Fund of the Commission, the trust funds, the supplemental pension plan fund and insurance plans fund were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing the appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. The financial data contained in the remainder of the annual activity report concords with the information provided in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. The internal auditing department conducts periodic audits to ensure that internal controls are adequate and applied uniformly on an ongoing basis by the Commission.

The Commission recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors oversees the manner in which management carried out its financial reporting duties, and has approved the financial statements. It was assisted in these duties by the auditing committee, which meets with management and the auditor, examines the financial statements and recommends that the Board of Directors approve them.

The actuaries of the firm Groupe-conseil Aon were named actuarial consultants by the Commission. Their role consisted in valuating the commitments and actuarial reserves indicated in the respective financial statements of the Supplemental Pension Plan Fund and the Insurance Plans Fund. They presented their conclusions to the Commission.

The Auditor General of Québec has audited the financial statements of the General Fund of the Commission, the trust funds, the supplemental pension plan fund and insurance plans fund, in accordance with generally accepted auditing standards. His report states the nature and scope of his audits and his opinion. The Auditor General may, without restriction meet with the audit committee to discuss any matter related to the audit.

André Ménard
President-Chief Executive Officer

April 30, 2004

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the General Fund of the Commission de la construction du Québec as at December 31, 2003, and the statement of revenue and expenditure and fund balance deficit and the statement of cash flows for the year then ended.

I also audited the state of the net assets available for the service of the supplemental pension plan benefits and the balance sheets or statements of assets and liabilities for the insurance plans and the following trust funds administered by the Commission de la construction du Québec as at December 31, 2003 and the statements of change in net available assets for the service of benefits, their equity and their assets during the fiscal year then ended:

Trust Funds:

Holiday and Vacation Pay Fund;
Back Pay Fund;
Employer Contributions Fund;
Union Assessment Fund;
Residential Sector Contributions Fund;
Special Compensation Fund;
Eligibility Fund;
Training Plan Fund – Work Sections;
Training Plan Fund – Residential Sector

These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

As mentioned in Note 2.2 h, the Commission did not apply several provisions of the Supplemental Pension Plans Act (R.S.Q., c. R-15.1) after it was amended on January 1, 2001. The actuarial valuation enabling the value of this plan's commitment to be established as at December 31, 2003, as presented in Note 11, does not reflect the amendments required by the Act. Since the Commission did not evaluate the impact of applying this Act, I was unable to determine the effect of the adjustments that should have been made to the commitments of the supplemental pension plan for Québec construction industry employees as at December 31, 2003.

In my opinion, with the exception of the adjustments to the above-mentioned supplemental pension plan commitments, these financial statements present fairly, in all material respects, the financial position of the funds and plans as at December 31, 2003 and the results of the General Fund's operations and cash flows and the change in net assets available for the service of supplemental pension plan benefits and the equity or assets of the insurance plans and trust funds for the year then ended, in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

In my auditor's report on the financial statements for the fiscal year ended December 31, 2002 presented for comparison purposes, I indicated the same restriction as mentioned above.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, April 30, 2004

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES
ET DES ASSOCIATIONS DE PRODUCTEURS**
(R.S.Q., c. S-32.1)

REVENUE AND EXPENDITURE AND DEFICIT
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Gouvernement du Québec operating subsidy	\$625 386	\$573 000
Interest on bank deposits	<u>439</u>	<u>372</u>
	<u>625 825</u>	<u>573 372</u>
EXPENDITURE		
Salaries and fringe benefits	429 037	412 570
Training	2 751	3 043
Travelling and entertainment	2 985	1 817
Professional fees	58 843	71 423
Rent and taxes	85 205	73 584
Insurance	1 182	1 250
Maintenance and equipment rental	4 584	4 484
Advertising	9 939	2 551
Documentation	3 278	3 178
Telecommunications	4 173	5 038
Office supplies	6 272	5 549
Furniture and equipment	36	151
Interest and bank charges	908	905
Depreciation of fixed assets	4 552	4 000
Other	<u>450</u>	<u>485</u>
	<u>614 195</u>	<u>590 028</u>
SURPLUS (DEFICIT) FOR THE YEAR	11 630	(16 656)
DEFICIT, BEGINNING OF YEAR	<u>(23 935)</u>	<u>(7 279)</u>
DEFICIT, END OF YEAR	<u><u>\$(12 305)</u></u>	<u><u>\$(23 935)</u></u>

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES
ET DES ASSOCIATIONS DE PRODUCTEURS**

BALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$43 328	\$20 061
Gouvernement du Québec subsidy receivable	11 940	
Prepaid expenses	<u>10 974</u>	<u>22 812</u>
	66 242	42 873
Fixed assets (Note 3)	<u>18 604</u>	<u>17 387</u>
	<u>\$84 846</u>	<u>\$60 260</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$10 245	\$5 904
Provision for vacation time accumulated	<u>23 604</u>	<u>19 581</u>
	33 849	25 485
Provision for sick leave (Note 6)	<u>63 302</u>	<u>58 710</u>
	97 151	84 195
DEFICIT	<u>(12 305)</u>	<u>(23 935)</u>
	<u>\$84 846</u>	<u>\$60 260</u>

On behalf of the Commission,
Jean Corriveau

COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES ET DES ASSOCIATIONS DE PRODUCTEURS

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

1. CONSTITUTION AND PURPOSE

The Commission de reconnaissance des associations d'artistes et des associations de producteurs was established under the Act respecting the professional status and conditions of engagement of performing, recording and film artists (R.S.Q., c. S-32.1). Its duties include rendering decisions on any application for recognition submitted by an artists' or a producers' association, appointing a mediator at the request of a party to the negotiation of a group agreement and appointing an arbitrator in the event of a dispute during the negotiation of a group agreement.

Under the Canadian Income Tax Act and the Québec Taxation Act, the Commission does not pay income tax.

2. ACCOUNTING POLICIES

The Commission's financial statements were prepared by management on the accrual basis in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of changes in financial position is not shown as it would not provide any useful supplementary information regarding the Commission's cash flow during the year.

Fixed assets

Fixed assets are recorded at cost and amortized based on the probable length of their use according to the straight-line method at the following annual rates:

Furniture and fixtures	10%
Data processing equipment and software	20%

3. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net
Furniture and fixtures	\$17 074	\$7 673	\$9 401
Data processing equipment and software	26 397	17 194	9 203
	<u>\$43 471</u>	<u>\$24 867</u>	<u>\$18 604</u>
			<u>\$17 387</u>

Acquisitions for the fiscal year totalled \$5 770 (2003: \$4 250). The Commission did not sell fixed assets in 2004 (2003: \$2 365).

4. FINANCIAL INSTRUMENTS

The fair value of financial instruments is equal to their book value, given that they mature in the near future.

5. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in the financial statements and recorded at exchange value, the Commission is a related party to all government departments, special funds, agencies and enterprises which are controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Commission did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES
ET DES ASSOCIATIONS DE PRODUCTEURS**

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

6. FUTURE FRINGE BENEFITS

Pension plans

The staff members of the Commission participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) or Pension Plan for Senior Officials (PPSO). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Commission's contributions charged to the year-end statement amount to \$12 521 (2003: \$14 205). The liability of the Commission towards these plans is restricted to its contributions as an employer.

Provision for sick leave

	<u>2004</u>	<u>2003</u>
Opening balance	\$58 710	\$49 720
Charge for the year	6 136	9 695
Benefits paid during the year	<u>(1 544)</u>	<u>(705)</u>
Closing balance	<u>\$63 302</u>	<u>\$58 710</u>

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES
ET DES ASSOCIATIONS DE PRODUCTEURS****MANAGEMENT'S REPORT**

The financial statements of the Commission de reconnaissance des associations d'artistes et des associations de producteurs were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Commission recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Commission's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the management to discuss any matter related to the audit.

Jean Corriveau
President

Québec, June 16, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Commission de reconnaissance des associations d'artistes et des associations de producteurs as at March 31, 2004, the statement of revenue and expenditure and the statement of deficit for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 16, 2004

COMMISSION DES LÉSIONS PROFESSIONNELLES
(R.S.Q., c.A-3.001)

REVENUE AND EXPENDITURE
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u> (Note 3)
REVENUE		
Commission de la santé et de la sécurité du travail contribution	\$50 153 246	\$46 878 579
Interest on bank deposits	74 354	89 503
Publications and services	<u>23 021</u>	<u>22 762</u>
	<u>50 250 621</u>	<u>46 990 844</u>
EXPENDITURE		
Salaries and fringe benefits	33 538 144	33 092 472
Transportation and communications	2 422 817	2 399 463
Professional services	6 862 128	7 705 321
Rent and maintenance	5 218 107	5 196 017
Supplies	633 756	690 508
Depreciation of fixed assets	1 557 898	2 008 721
Loss on disposal of fixed assets		10 000
Interest on long-term debt	75 880	
Other	<u>15 976</u>	<u>7 839</u>
	<u>50 324 706</u>	<u>51 110 341</u>
EXCESS EXPENDITURE OVER REVENUE	<u><u>\$(74 085)</u></u>	<u><u>\$(4 119 497)</u></u>

DEFICIT FUND BALANCE
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u> (Note 3)
DEFICIT FUND BALANCE, BEGINNING OF YEAR		
Previously established balance	\$8 084 787	\$4 190 871
Adjustment to provision for transition allowances	<u>3 015 814</u>	<u>2 790 233</u>
Adjusted balance	11 100 601	6 981 104
Excess expenditure over revenue	<u>74 085</u>	<u>4 119 497</u>
DEFICIT FUND BALANCE, END OF YEAR	<u><u>\$11 174 686</u></u>	<u><u>\$11 100 601</u></u>

COMMISSION DES LÉSIONS PROFESSIONNELLES

BALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u> (Note 3)
ASSETS		
Current assets		
Cash and cash equivalents	\$3 170 457	\$2 130 744
Accounts receivable	7 156	37 268
Interest accrued	6 091	7 869
Advances for travel expenses	13 000	14 506
Prepaid expenses	<u>74 091</u>	<u>59 957</u>
	3 270 795	2 250 344
Fixed assets (Note 4)	<u>2 652 924</u>	<u>2 972 767</u>
	<u><u>\$5 923 719</u></u>	<u><u>\$5 223 111</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$2 477 640	\$2 082 110
Instalments on long-term debt (Note 5)	<u>183 799</u>	<u>144 598</u>
	2 661 439	2 226 708
Long-term debt (Note 5)	457 438	491 404
Provision for transition allowances (Note 6)	3 091 319	3 015 814
Provision for sick leave and vacation time (Note 7)	<u>10 888 209</u>	<u>10 589 786</u>
	17 098 405	16 323 712
FUND BALANCE DEFICIT	<u>(11 174 686)</u>	<u>(11 100 601)</u>
	<u><u>\$5 923 719</u></u>	<u><u>\$5 223 111</u></u>

On behalf of the Commission,
Micheline Bélanger

COMMISSION DES LÉSIONS PROFESSIONNELLES**CASH FLOW**

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Excess expenditure over revenue	\$(74 085)	\$(4 119 497)
Items with no effect on cash and cash equivalents:		
Depreciation of fixed assets	1 557 898	2 008 721
Loss on disposal of fixed assets		10 000
Change in provision for transition allowances	75 505	225 581
Change in provision for sick leave and vacation time	<u>298 423</u>	<u>1 114 522</u>
	1 857 741	(760 673)
Changes in non-cash elements of the Working Capital Fund:		
Accounts receivable	30 112	(29 011)
Interest accrued	1 778	(4 352)
Advances for travel expenses	1 506	994
Prepaid expenses	(14 134)	(23 813)
Accounts payable and accruals	<u>395 530</u>	<u>(389 868)</u>
	414 792	(446 050)
Cash flows related to operating activities	<u>2 272 533</u>	<u>(1 206 723)</u>
INVESTMENT ACTIVITIES		
Proceeds from disposal of fixed assets		9 450
Acquisition of fixed assets	<u>(1 238 055)</u>	<u>(1 284 351)</u>
Cash flows related to investment activities	<u>(1 238 055)</u>	<u>(1 274 901)</u>
FINANCING ACTIVITIES		
Repayment of long-term debt	(159 140)	(139 847)
Long-term debt	<u>164 375</u>	<u>775 849</u>
Cash flows related to financing activities	<u>5 235</u>	<u>636 002</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1 039 713	(1 845 622)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2 130 744</u>	<u>3 976 366</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$3 170 457</u></u>	<u><u>\$2 130 744</u></u>
COMPOSITION OF CASH AND CASH EQUIVALENTS:		
Cash on hand	\$3 170 457	\$1 630 744
Term deposits (rate: 3.00%)		500 000
	<u><u>\$3 170 457</u></u>	<u><u>\$2 130 744</u></u>

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION, PURPOSE AND FINANCING

The Commission, established under a special statute (1997, chapter 27), is mandated to hear and deal with cases contesting decisions rendered by the Commission de la santé et de la sécurité du travail following an administrative review.

The amounts required by the Commission for its operations are taken out of the Commission fund, which consists of the sums paid into it by the Commission de la santé et de la sécurité du travail according to terms and conditions determined by the Government.

2. ACCOUNTING POLICIES

The Commission's financial statements were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Cash and cash equivalents

The Commission's policy consists in presenting under cash and cash equivalents bank balances and short-term investments maturing within three months of the date they were acquired or that convertible to cash at any time.

Fixed assets

Fixed assets are recorded at their original cost and amortized according to their probable service life, using the straight-line accounting method, at the following annual rates:

Office furniture and equipment	20%
Data processing equipment	33.3%
Leasehold improvements - Term of lease	maximum 5 years

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. CHANGE IN ACCOUNTING POLICY

The financial statements for the fiscal year ended March 31, 2003 were adjusted to record a provision for transition allowances payable to commissioners whose mandate was not renewed or who are not seeking renewal of their mandate. This allowance is cumulative based on years of service rendered.

Previously, the allowance was posted to expenditures for the fiscal year in which it was paid. The retroactive application of this modification increased the following items in the financial statements:

	<u>2003</u>
Salaries and fringe benefits	\$225 581
Provision for transition allowances	3 015 814
Deficit fund balance	3 015 814

COMMISSION DES LÉSIONS PROFESSIONNELLESNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**4. FIXED ASSETS**

	2004		2003
	Cost	Accumulated depreciation	Total
Office furniture and equipment	\$3 699 634	\$3 010 491	\$1 174 270
Data processing equipment	4 154 133	2 961 003	685 703
Leasehold improvements	2 988 106	2 217 455	1 112 794
	<u>\$10 841 873</u>	<u>\$8 188 949</u>	<u>\$2 972 767</u>

5. LONG-TERM DEBT

	2004	2003
Borrowings from the Société immobilière du Québec, fixed rate varying from 5.52% to 6.68%, repayable in monthly instalments of \$18 117, maturing until September 2008	\$641 237	\$636 002
Payments falling due within a year	183 799	144 598
	<u>\$457 438</u>	<u>\$491 404</u>

Capital payments to be made over the next five fiscal years break down as follows:

2005	\$183 799
2006	195 290
2007	207 491
2008	35 383
2009	19 274

6. PROVISION FOR TRANSITION ALLOWANCES

Transition allowances are payable to commissioners whose mandate is not renewed or who are not seeking renewal of their mandate. According to the regulation respecting the remuneration and other working conditions of the Commission's commissioners, this allowance generally corresponds to one month's wages at the time of departure per uninterrupted year of service, to a maximum of twelve months.

	2004	2003
Opening balance	\$3 015 814	\$2 790 233
Charge for the year	184 623	225 581
Use in the year	(109 118)	
Closing balance	<u>\$3 091 319</u>	<u>\$3 015 814</u>

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

7. PROVISION FOR SICK LEAVE AND VACATION TIME

	2004		2003
	Sick leave	Vacation time	Total
Opening balance	\$6 665 281	\$3 924 505	\$10 589 786
Charge for the year	934 670	2 670 334	3 605 004
Use in fiscal year	(749 146)	(2 557 435)	(3 306 581)
Closing balance	\$6 850 805	\$4 037 404	\$10 888 209

8. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Commission is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Commission did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

9. PENSION PLANS

The staff members of the Commission participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

Certain other employees participate in a Registered Retirement Savings Plan because they do not belong to the Public Service. The Commission pays them an amount equivalent to what it pays the other employees.

The Commission's contributions charged to the year-end statement amount to \$922 840 (2003: \$994 810). The liability of the Commission towards these Government plans is restricted to its contributions as an employer.

10. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equal to their book value, given that they mature in the near future. The fair value of the long-term debt cannot be estimated, given the absence of markets for this type of debt.

COMMISSION DES LÉSIONS PROFESSIONNELLES**MANAGEMENT'S REPORT**

The financial statements of the Commission des lésions professionnelles were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Each manager performs a monthly analysis and verification of his administrative unit's budgetary position.

The Commission recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors must oversee the manner in which management fulfils its financial reporting duties.

The Auditor General of Québec has audited the Commission's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Micheline Bélanger
Chairman

Québec, May 10, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Commission des lésions professionnelles as at March 31, 2004, the statements of revenue and expenditure, of deficit fund balance and of cash flow for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 10, 2004

COMMISSION DES NORMES DU TRAVAIL
(R.S.Q., c. N-1.1)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Employer contributions (Note 3)	\$49 857 623	\$49 549 899
Interest on investments	953 493	886 112
Other (Note 4)	<u>316 933</u>	<u>382 138</u>
	<u>51 128 049</u>	<u>50 818 149</u>
EXPENDITURE		
Salaries and fringe benefits	29 362 423	28 108 927
Fees	2 780 241	2 307 226
Travelling expenses	1 261 738	1 305 292
Telecommunications and mail	1 024 551	878 607
Advertising and information	1 479 416	728 709
Rental of office space, equipment and other	3 358 303	3 025 562
Maintenance	867 553	919 394
Supplies	694 286	704 154
Bank charges	11 554	11 926
Depreciation of fixed assets	1 508 447	1 308 091
Net loss on disposal of fixed assets	5 470	2 613
Write-off of computer system development	<u>2 013 520</u>	
	44 367 502	39 300 501
Agreements with the Gouvernement du Québec (Note 10):		
Ministère du Revenu du Québec collection fee	410 701	397 789
Reimbursement of expenses of the Commission des relations du travail	4 952 800	1 758 300
Reimbursement of expenses of the Labour Commissioner-General's office		<u>2 360 900</u>
	<u>49 731 003</u>	<u>43 817 490</u>
EXCESS REVENUE OVER EXPENDITURE	1 397 046	7 000 659
SURPLUS, BEGINNING OF YEAR	<u>50 794 355</u>	<u>43 793 696</u>
SURPLUS, END OF YEAR	<u><u>\$52 191 401</u></u>	<u><u>\$50 794 355</u></u>

COMMISSION DES NORMES DU TRAVAILBALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$233 566	\$132 739
Short-term investments – at cost (Note 5)	53 356 681	54 059 320
Accounts receivable	455 933	171 126
Interest accrued on investments	79 162	90 243
	<u>54 125 342</u>	<u>54 453 428</u>
Fixed assets (Note 6)	<u>13 215 431</u>	<u>9 694 613</u>
	<u>\$67 340 773</u>	<u>\$64 148 041</u>
LIABILITIES		
Current liabilities		
Accounts payable and expenses accrued	\$4 765 903	\$3 730 319
Claims collected for remittance to employees (Note 7)	354 765	175 900
Vacation allowance payable to employees	3 841 575	3 506 388
	<u>8 962 243</u>	<u>7 412 607</u>
Allowance for sick leave (Note 8)	6 187 129	5 941 079
SURPLUS (Note 9)	<u>52 191 401</u>	<u>50 794 355</u>
	<u>\$67 340 773</u>	<u>\$64 148 041</u>
COMMITMENTS (Note 10)		

On behalf of the Commission,
Francine Martel-Vaillancourt
Jacques Fortin

COMMISSION DES NORMES DU TRAVAIL

CASH FLOWS

for the year ended March 31, 2004

	2004	2003
OPERATING ACTIVITIES		
Excess revenue over expenditure	\$1 397 046	\$7 000 659
Adjustments for:		
Depreciation of fixed assets	1 508 447	1 308 091
Net loss on disposal of fixed assets	5 470	2 613
Write-off of computer system development	2 013 520	
Increase in allowance for sick leave	246 050	342 061
	5 170 533	8 653 424
Change in non-cash elements related to operations:		
Increase in accounts receivable	(284 807)	(95 266)
Change in interest accrued on investments	11 081	(21 407)
Change in accounts payable and accruals	706 386	(179 971)
Increase in claims collected for remittance to employees	178 865	22 880
Increase in vacation allowance payable to employees	335 187	632 010
	946 712	358 246
Cash flows generated by operating activities	6 117 245	9 011 670
INVESTMENT ACTIVITIES		
Variation in short-term investments	(9 300 000)	10 600 000
Acquisition of fixed assets	(6 719 057)	(5 092 967)
Proceeds from disposal of fixed assets		6 830
Cash flows used for investment activities	(16 019 057)	5 513 863
DECREASE IN CASH AND CASH EQUIVALENTS	(9 901 812)	14 525 533
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	42 192 059	27 666 526
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 11)	\$32 290 247	\$42 192 059

COMMISSION DES NORMES DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

The Commission des normes du travail, established under the Act respecting labour standards (R.S.Q., c. N-1.1), is a legal person within the meaning of the Civil Code and has all the general powers of such a legal person.

The Commission is responsible for overseeing the implementation and application of labour standards. More specifically, it must inform the population on matters dealing with labour standards, supervise the application of labour standards and, when necessary, transmit its recommendations to the Minister. The Commission also receives complaints from employees and must indemnify the latter to the extent provided for in the Act and regulations respecting labour standards and endeavour to work out agreements between employers and employees concerning their different positions on the application of said Act and regulations.

Under section 984 of the Québec Taxation Act and section 149 of the Canadian Income Tax Act, the Commission is subject to income tax.

2. ACCOUNTING POLICIES

The financial statements of the Commission were prepared by management on the accrual basis in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Short-term investments

Investments are recorded at cost or market value, whichever is less.

Cash and cash equivalents

The Commission's policy consists in presenting cash and cash equivalents, liquid assets, bank balances and short-term investments, maturing within three months or negotiable.

Fixed assets

Fixed assets are recorded at their historic cost and depreciated on a straight-line basis at the following rates:

	Rate
Equipment	20%
Furniture	20%
Automotive equipment	33 1/3%
Leasehold improvements	20%
Data processing equipment and software	33 1/3%
Computer systems	10% and 20%

Employer contributions

Employer contributions were collected by the Ministère du Revenu. They are recorded according to the estimated employer contribution, based on assessments for the previous calendar year. The amount is determined jointly by this government department and the Commission. This revenue is subject to auditing and adjustments which, if necessary, will be entered as revenue from contributions for the year in which they are determined.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans.

COMMISSION DES NORMES DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

3. EMPLOYER CONTRIBUTIONS

	2004	2003
Estimated revenue for the year	<u>\$49 916 702</u>	<u>\$48 563 761</u>
Revenue for previous years:		
Fiscal 2003	(938 428)	
Fiscal 2002	(74 617)	349 818
Fiscal 2001	48 093	
Fiscal 2000	495 322	
Fiscal 1999	403 467	636 320
Other fiscal years	<u>7 084</u>	
	<u>(59 079)</u>	<u>986 138</u>
	<u>\$49 857 623</u>	<u>\$49 549 899</u>
Growth rate applied to payroll for the previous fiscal year to establish the revenues for the fiscal year	<u>4.47%</u>	<u>4.86%</u>

4. OTHER REVENUE

	2004	2003
Claims collected for employees that could not be located	\$29 163	\$20 862
Sales of publications	3 124	5 800
Recovery of legal costs	200 286	247 948
Employer seminars	83 805	106 930
Miscellaneous	<u>555</u>	<u>598</u>
	<u>\$316 933</u>	<u>\$382 138</u>

5. SHORT-TERM INVESTMENTS

	2004	2003
Short-term deposits	\$32 750 000	\$42 100 000
Discount note	4 975 000	11 959 320
Bankers' acceptances	<u>15 631 681</u>	
	<u>\$53 356 681</u>	<u>\$54 059 320</u>

Interest rates vary from 2.10% to 2.40% (2003: 2.85% to 3.25%). These investments mature in the coming fiscal year.

COMMISSION DES NORMES DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

6. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net
Equipment	\$1 840 591	\$1 126 336	\$714 255
Furniture	1 063 804	497 952	565 852
Automotive equipment	26 472	9 736	16 736
Leasehold improvements	3 784 160	2 614 280	1 169 880
Data processing equipment and software	7 211 014	6 706 692	504 322
Computer systems	10 572 322	327 936	10 244 386
	<u>\$24 498 363</u>	<u>\$11 282 932</u>	<u>\$13 215 431</u>
			<u>\$9 694 613</u>

Fixed assets classified under the heading "Computer systems", in the amount of \$9 488 584, were not amortized in the current fiscal year since development work had not been completed and computer systems were not yet operational at year-end.

7. CLAIMS COLLECTED PAYABLE TO EMPLOYEES

	2004	2003
Payable at the beginning of the year	\$175 900	\$153 020
Claims collected by employers	<u>3 199 411</u>	<u>3 199 291</u>
	<u>3 375 311</u>	<u>3 352 311</u>
Claims paid to employees	2 993 584	3 155 549
Transfer to income from claims collected for employees that could not be located	<u>26 962</u>	<u>20 862</u>
	<u>3 020 546</u>	<u>3 176 411</u>
Payable at fiscal year-end	<u>\$354 765</u>	<u>\$175 900</u>

8. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Commission participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) and Pension Plan of Management Personnel (PPMP), which are administered by the Commission administrative des régimes de retraite et d'assurances. These are defined-benefit plans and include guaranteed payments on retirement and death.

The Commission's contributions charged to the year-end statement amount to \$882 739 (2003: \$840 719). The Commission's liability towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave

	2004	2003
Opening balance	\$5 941 079	\$5 599 018
Charge for the year	1 326 987	1 305 280
Benefits paid during the year	<u>(1 080 937)</u>	<u>(963 219)</u>
Closing balance	<u>\$6 187 129</u>	<u>\$5 941 079</u>

COMMISSION DES NORMES DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

9. SURPLUS

The Commission receives approximately 95% of its revenue during the last month of its fiscal year. Its operations, among other things, are financed from its surplus. For example, the \$52 191 401 surplus as at March 31, 2004, will be used to finance about 96% of the operating expenses and the acquisition of fixed assets anticipated for the first eleven months of the coming year.

10. COMMITMENTS

Under section 6.1 of the Act respecting labour standards, the Commission entered into an agreement with the Ministère du Revenu. Expiring on December 31, 2002 and renewable for a five-year period, this agreement provided for the Department to collect employers' dues and withhold collection fees indexed annually to the Consumer Price Index. For fiscal 2005, negotiations between the Commission and the Ministère du Revenu are currently under way to determine the terms and conditions for the next agreement.

Under section 28.1 of the Act respecting labour standards, the Commission contributes to the Commission des relations du travail fund to cover the expenses related to the provisions of this Act concerning recourse against a prohibited practice and against dismissal without just and sufficient cause. The amount of the Commission des normes du travail contribution is set by the Government, after the Minister consults the Commission. The amount of the contribution was set at \$4 952 800 for fiscal 2004 (2003: \$1 758 300). The amount of the contribution for fiscal 2005 has not yet been set.

The Commission is bound under contracts for the development of computer systems. The payment for fiscal 2005 amount to \$3 241 640.

11. CASH AND CASH EQUIVALENTS

	2004	2003
Cash on hand	\$233 566	\$132 739
Short-term investments	32 056 681	42 059 320
	<u>\$32 290 247</u>	<u>\$42 192 059</u>

12. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value, given that they mature in the near future.

13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Commission is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Commission did not carry out business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

COMMISSION DES NORMES DU TRAVAIL**MANAGEMENT'S REPORT**

The financial statements of the Commission des normes du travail were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Commission recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties and has approved the financial statements. It is assisted by the audit committee, whose members are not management employees. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Commission's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Francine Martel-Vaillancourt
President and Chief Executive Officer

Andrée Blanchet
Director General, Administration

Québec, May 4, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Commission des normes du travail as at March 31, 2004, the statement of revenue and expenditure and surplus and the statement of cash flows for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 4, 2004

COMMISSION DES RELATIONS DU TRAVAIL
(R.S.Q., c. C-27)

REVENUE AND EXPENDITURE
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u> (4 months) (Note 3)
REVENUE		
Contributions		
Gouvernement du Québec – Ministère du Travail	\$7 127 200	\$2 519 900
Commission des normes du travail	4 952 800	1 758 300
Gouvernement du Québec – Secrétariat du Conseil du trésor		315 886
Sales of forms and documents	15 212	6 937
Interest	<u>22 284</u>	<u>4 665</u>
	<u>12 117 496</u>	<u>4 605 688</u>
EXPENDITURE		
Salaries and fringe benefits	9 034 900	3 193 886
Transportation and communication services	538 902	236 752
Professional and administrative services	1 204 068	433 843
Maintenance and repairs	41 869	14 088
Rent	1 281 131	417 675
Furnishings and supplies	81 986	53 547
Material and equipment	20 432	26 685
Other expenses	11 243	967
Depreciation of fixed assets	168 814	31 724
Doubtful debts	<u>77</u>	<u> </u>
	<u>12 383 422</u>	<u>4 409 167</u>
SURPLUS (INSUFFICIENT) REVENUE OVER EXPENDITURE	<u><u>\$(265 926)</u></u>	<u><u>\$196 521</u></u>

DEFICIT
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u> (Note 3)
DEFICIT, BEGINNING OF YEAR		
Previously established balance	\$(285 262)	
Adjustments:		
Recording of a provision for transition allowances	(293 196)	
Gouvernement du Québec contribution for the cost of fringe benefits	<u>315 886</u>	
Adjusted balance	<u>(262 572)</u>	
Transferred deficit		\$(459 093)
Surplus (insufficient) revenue over expenditure	<u>(265 926)</u>	<u>196 521</u>
DEFICIT, END OF YEAR	<u><u>\$(528 498)</u></u>	<u><u>\$(262 572)</u></u>

COMMISSION DES RELATIONS DU TRAVAILBALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u> (Note 3)
ASSETS		
Current assets		
Cash on hand	\$618	\$660
Accounts receivable	401 754	321 770
Advance to the Consolidated Revenue Fund without terms of repayment, interest at the prime rate minus 2.5%	1 562 795	1 918 475
Owed by the Gouvernement du Québec (Note 4)	<u>181 622</u>	<u>181 622</u>
	2 146 789	2 422 527
Owed by the Gouvernement du Québec (Note 4)	595 783	777 405
Fixed assets (Note 5)	<u>638 692</u>	<u>551 065</u>
	<u><u>\$3 381 264</u></u>	<u><u>\$3 750 997</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$534 223	\$1 161 810
Provision for transition allowances (Note 6)	516 254	293 196
Provision for sick leave and vacation time (Note 6)	<u>2 859 285</u>	<u>2 558 563</u>
	3 909 762	4 013 569
DEFICIT	<u>(528 498)</u>	<u>(262 572)</u>
	<u><u>\$3 381 264</u></u>	<u><u>\$3 750 997</u></u>
COMMITMENTS (Note 7)		

On behalf of the Commission,
Louis Morin, Chairman

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION, PURPOSE AND FINANCEMENT

The Commission des relations du travail constituted under the Labour Code (R.S.Q., c. C-27) is mandated to hear and have access to a range of recourses linked to employment and labour relations in Québec. It assumes the decision-making responsibilities formerly attributed to the Bureau du commissaire général du travail in terms of collective labour relations. It is in charge of ensuring that the Labour Code (R.S.Q., c. C-27) is applied diligently and effectively, and carrying out the other duties envisaged under the Code, the Act respecting labour standards (R.S.Q., c. N-1.1) and the approximately twenty-three other pieces of legislation giving it jurisdiction. It also has the power to issue orders and help parties reach a negotiated settlement by offering pre-ruling reconciliation services.

Commission financing comprised the following amounts:

- sums paid by the Minister of Labour under the appropriations allotted by Parliament for this purpose;
- amounts paid by the Commission des normes du travail under section 28.1 of the Act respecting labour standards (R.S.Q., c. N-1.1);
- amounts collected by applying the rate governing dues, honoraria and other fees related to requests, complaints, recourses or documents tabled with the Commission or to services rendered by it.

2. ACCOUNTING POLICIES

The Commission's financial statements were prepared by management in keeping with the accounting principles generally recognized in Canada. These financial statements include amounts based on best judgements and estimates. No cash flow statement has been presented since it does not provide additional information that would be useful in understanding cash flows during the fiscal year.

Fixed assets

Fixed assets are recorded at cost. They are amortized according to their probable use using the straight-line method and the following rates:

	<u>Rates</u>
Office furniture	20 %
Computer material and equipment	33 1/3 %
Computer-related development	20 %

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans.

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

3. CHANGE IN ACCOUNTING POLICY

The financial statements for the fiscal year ended March 31, 2003 were adjusted to record a provision for transition allowances payable to commissioners whose mandate was not renewed or who are not seeking renewal of their mandate. This allowance is cumulative based on years of service rendered.

This modification increased the following items in the financial statements:

	2003
Salaries and fringe benefits	\$293 196
Provision for transition allowances	293 196
Deficit	293 196

Moreover, the financial statements for the fiscal year ended March 31, 2003 were adjusted to include the Gouvernement du Québec contribution covering the employer's share related to sick leave and vacation time for the fiscal year ending March 31, 2003.

This adjustment (decreased) or increased the following items in the financial statements:

	2003
Gouvernement du Québec contribution — Secrétariat du Conseil du trésor	\$315 886
Deficit	(315 886)
Accounts receivable	315 886

4. OWED BY THE GOUVERNEMENT DU QUÉBEC

The amount owed by the Gouvernement du Québec does not bear interest. The terms and conditions of repayment are the following:

	2004	2003
2004		\$181 622
2005	\$181 622	181 622
2006	181 622	181 622
2007	181 622	181 622
2008	232 539	232 539
	777 405	959 027
Short-term portion	181 622	181 622
	<u>\$595 783</u>	<u>\$777 405</u>

5. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net value
Office furniture	\$47 651	\$9 840	\$37 811
Computer material and equipment	398 193	148 534	249 659
Computer-related development	393 386	42 164	351 222
	<u>\$839 230</u>	<u>\$200 538</u>	<u>\$638 692</u>
			<u>\$551 065</u>

Acquisitions for the fiscal year totalled \$256 441.

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

6. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Commission participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Commission's contributions charged to the year-end statement amount to \$290 426. The liability of the Commission towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave and vacation time

	2004			2003
	Sick leave	Vacation time	Total	Total
Opening balance	\$1 535 006	\$1 023 557	\$2 558 563	\$2 354 632
Charge for the year	326 218	771 269	1 097 487	406 545
Benefits paid during the year	(104 463)	(692 302)	(796 765)	(202 614)
Closing balance	\$1 756 761	\$1 102 524	\$2 859 285	\$2 558 563

Provision for transition allowances

Transition allowances are payable to commissioners whose mandate is not renewed or who are not seeking renewal of their mandate. According to the regulation respecting the remuneration and other working conditions of the Commission's commissioners, this allowance generally corresponds to one month's wages at the time of departure per uninterrupted year of service, to a maximum of twelve months.

	2004	2003
Opening balance	\$293 196	
Charge for the year	223 058	\$293 196
Use in the year		
Closing balance	\$516 254	\$293 196

7. COMMITMENTS

The Commission is committed to paying sums under a service agreement of the Ministère du Travail. The amount of these commitments for the coming fiscal year is \$1 036 200.

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

8. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Commission is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Commission did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

9. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equal to their book value, given that they mature in the near future. The fair value of the amount owed by the Gouvernement du Québec cannot be estimated, given the absence of markets for this type of instrument.

MANAGEMENT'S REPORT

The financial statements of the Commission des relations du travail were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. The Commission recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Commission's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Louis Morin
President

Québec, June 22, 2004

COMMISSION DES RELATIONS DU TRAVAIL**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Commission des relations du travail as at March 31, 2004, the statement of revenue and expenditure, and the statement of deficit for the year then ended. These financial statements are the responsibility of Commission management. It is my responsibility to express an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management, and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Marc Ouellet, CA
Principal
On behalf of the Acting Auditor General of Québec

Québec, June 22, 2004

COMMISSION DES SERVICES JURIDIQUES

(R.S.Q., c. A-14)

GENERAL FUND

CONSOLIDATED RESULTS
for the year ended March 31, 2004

	<u>Operations</u>		<u>Private practice (Section 52)</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
REVENUE						
Gouvernement du Québec grants						
Regular	\$70 937 900	\$68 754 400	\$49 055 396	\$48 801 400	\$119 993 296	\$117 555 800
Court costs	<u>1 196 687</u>	<u>1 438 091</u>	<u>998 313</u>	<u>756 909</u>	<u>2 195 000</u>	<u>2 195 000</u>
	72 134 587	70 192 491	50 053 709	49 558 309	122 188 296	119 750 800
EXPENDITURE (Note 8)	<u>72 651 721</u>	<u>70 581 566</u>	<u>49 782 947</u>	<u>52 220 016</u>	<u>122 434 668</u>	<u>122 801 582</u>
	(517 134)	(389 075)	270 762	(2 661 707)	(246 372)	(3 050 782)
OTHER REVENUE						
(Note 5)	<u>1 607 894</u>	<u>1 354 627</u>	<u>579 389</u>	<u>563 371</u>	<u>2 187 283</u>	<u>1 917 998</u>
EXCESS						
REVENUE OVER						
EXPENDITURE						
(EXPENDITURE						
OVER REVENUE)	<u>\$1 090 760</u>	<u>\$965 552</u>	<u>\$850 151</u>	<u>\$(2 098 336)</u>	<u>\$1 940 911</u>	<u>\$(1 132 784)</u>

This information is an integral part of the consolidated financial statements.

COMMISSION DES SERVICES JURIDIQUES**GENERAL FUND****CHANGE IN CONSOLIDATED NET ASSETS**
for the year ended March 31, 2004

	2004			2003		
	General reserve	Net assets invested in fixed assets	Total	General reserve	Net assets invested in fixed assets	Total
OPENING BALANCE						
Previously established (Note 21)	\$3 837 118		\$3 837 118	\$5 050 597		\$5 050 597
Adjustment to previous fiscal years (Note 3)		\$1 543 583	1 543 583		\$1 462 888	1 462 888
ADJUSTED BALANCE	<u>3 837 118</u>	<u>1 543 583</u>	<u>5 380 701</u>	<u>5 050 597</u>	<u>1 462 888</u>	<u>6 513 485</u>
OPERATIONS						
Excess revenue over expenditure (expenditure over revenue) before using the general reserve (Note 6)	2 811 790	(906 318)	1 905 472	2 211 876	(902 087)	1 309 789
Application to the general reserve (Note 7)	<u>(814 712)</u>		<u>(814 712)</u>	<u>(344 237)</u>		<u>(344 237)</u>
Net excess revenue over expenditure (expenditure over revenue)	1 997 078	(906 318)	1 090 760	1 867 639	(902 087)	965 552
Investments in fixed assets:						
Application to the general reserve (Note 7)	(209 239)	209 239		(565 909)	565 909	
From operations for the fiscal year	(271 149)	271 149		(244 062)	244 062	
Instalments on capital lease contracts:						
Application to the general reserve (Note 7)	(57 574)	57 574		(12 312)	12 312	
From operations for the fiscal year	(149 913)	149 913		(160 499)	160 499	
Transfers to the Professional Liability Fund and Fire and Theft Fund	<u>(238 740)</u>		<u>(238 740)</u>			
	<u>1 070 463</u>	<u>(218 443)</u>	<u>852 020</u>	<u>884 857</u>	<u>80 695</u>	<u>965 552</u>
PRIVATE PRACTICE						
Excess revenue over expenditure before using the general reserve	1 478 536		1 478 536	845 664		845 664
Application to the general reserve (Note 7)	<u>(628 385)</u>		<u>(628 385)</u>	<u>(2 944 000)</u>		<u>(2 944 000)</u>
Net excess of revenue over expenditure (expenditure over revenue)	<u>850 151</u>		<u>850 151</u>	<u>(2 098 336)</u>		<u>(2 098 336)</u>
CLOSING BALANCE	<u>\$5 757 732</u>	<u>\$1 325 140</u>	<u>\$7 082 872</u>	<u>\$3 837 118</u>	<u>\$1 543 583</u>	<u>\$5 380 701</u>

COMMISSION DES SERVICES JURIDIQUES

CHANGE IN BALANCES OF THE PROFESSIONAL LIABILITY FUND
AND FIRE AND THEFT FUND
for the year ended March 31, 2004

	2004			2003
	Professional Liability Fund	Fire and Theft Fund	Total	Total
OPENING BALANCE	\$311 260	\$250 000	\$561 260	\$561 260
Transfer from the General Fund's general reserve	188 740	50 000	238 740	
CLOSING BALANCE	<u>\$500 000</u>	<u>\$300 000</u>	<u>\$800 000</u>	<u>\$561 260</u>

COMMISSION DES SERVICES JURIDIQUES

GENERAL FUND

CONSOLIDATED BALANCE SHEET
as at March 31, 2004

	General Fund	Professional Liability Fund	Fire and Theft Fund	2004	2003
ASSETS					
Current assets					
Cash on hand (Note 4)	\$10 547 000	\$9 439	\$6 529	\$10 562 968	\$8 002 137
Accounts receivable (Note 10)	1 613 533	719	432	1 614 684	1 161 382
Prepaid expenses	317 673			317 673	352 336
Advances on deferred salaries	45 144			45 144	69 995
Short-term investments (Note 11)		500 000	300 000	800 000	561 260
	<u>12 523 350</u>	<u>510 158</u>	<u>306 961</u>	<u>13 340 469</u>	<u>10 147 110</u>
Fixed assets (Note 12)	<u>1 978 262</u>			<u>1 978 262</u>	<u>1 952 729</u>
	<u>\$14 501 612</u>	<u>\$510 158</u>	<u>\$306 961</u>	<u>\$15 318 731</u>	<u>\$12 099 839</u>
LIABILITIES					
Current liabilities					
Accounts payable (Note 13)	\$4 712 381	\$10 158	\$6 961	\$4 729 500	\$3 944 017
Deferred salaries	228 644			228 644	286 036
Amounts collected in advance (Note 14)	1 824 593			1 824 593	1 518 679
Short-term portion of obligations under capital lease contracts (Note 16)	<u>126 623</u>			<u>126 623</u>	<u>135 027</u>
	<u>6 892 241</u>	<u>10 158</u>	<u>6 961</u>	<u>6 909 360</u>	<u>5 883 759</u>
Deferred special grants related to fixed assets (Note 15)	272 803			272 803	
Obligations under capital lease contracts (Note 16)	<u>253 696</u>			<u>253 696</u>	<u>274 119</u>
	<u>7 418 740</u>	<u>10 158</u>	<u>6 961</u>	<u>7 435 859</u>	<u>6 157 878</u>
EQUITY					
Net assets invested in fixed assets	1 325 140			1 325 140	1 543 583
Net appropriated assets of internal origin	<u>5 757 732</u>	<u>500 000</u>	<u>300 000</u>	<u>6 557 732</u>	<u>4 398 378</u>
	<u>7 082 872</u>	<u>500 000</u>	<u>300 000</u>	<u>7 882 872</u>	<u>5 941 961</u>
	<u>\$14 501 612</u>	<u>\$510 158</u>	<u>\$306 961</u>	<u>\$15 318 731</u>	<u>\$12 099 839</u>

On behalf of the Commission des services juridiques,
Pierre Bélanger, Administrator
Hélène Leduc, Administrator

COMMISSION DES SERVICES JURIDIQUES**GENERAL FUND****CONSOLIDATED CASH FLOWS**
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Excess revenue over expenditure (expenditure over revenue)		
Operations	\$1 090 760	\$965 552
Private practice	850 151	(2 098 336)
	<u>1 940 911</u>	<u>(1 132 784)</u>
Loss on disposal of fixed assets		560
Depreciation of fixed assets	909 225	901 527
Amortization of deferred contributions related to fixed assets	(2 907)	
Change in non-cash working capital items (Note 9)		
Operations	533 604	(1 115 312)
Private practice	106 613	2 688 223
	<u>3 487 446</u>	<u>1 342 214</u>
Cash flows related to operations		
FINANCING ACTIVITIES		
Deferred special grants related to fixed assets	275 710	
Instalment on obligations under capital lease contracts	(207 487)	(172 811)
	<u>68 223</u>	<u>(172 811)</u>
Cash flows related to financing activities		
INVESTING ACTIVITIES		
Amounts paid in trust	(39 103)	(137 444)
Acquisition of investments	(238 740)	
Acquisition of fixed assets	(756 098)	(809 971)
	<u>(1 033 941)</u>	<u>(947 415)</u>
Cash flows related to investing activities		
NET VARIATION IN LIQUID ASSETS	2 521 728	221 988
CASH ON HAND, BEGINNING ON YEAR	<u>7 511 486</u>	<u>7 289 498</u>
CASH ON HAND, END O YEAR	<u>\$10 033 214</u>	<u>\$7 511 486</u>

Cash excludes amounts held in trust.

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
as at March 31, 2004

1. IDENTIFICATION AND ACTIVITY SECTOR

The Commission des services juridiques was established under the Legal Aid Act.

2. MAIN ACCOUNTING POLICIES

The financial statements were prepared in accordance with the accounting principles that are generally accepted in Canada and reflect the following:

a) Consolidation principles

The consolidated financial statements include the accounts of the Commission des services juridiques and the following centres controlled by the Commission:

Regional centres:

Centre communautaire juridique de Montréal (including the Services juridiques communautaires de Pointe St-Charles and Petite Bourgogne inc.);
Centre communautaire juridique des Laurentides-Lanaudière;
Centre communautaire juridique de la Rive-Sud;
Centre communautaire juridique de Québec;
Centre communautaire juridique de l'Outaouais;
Centre communautaire juridique de l'Estrie;
Centre communautaire juridique du Saguenay - Lac St-Jean;
Centre communautaire juridique de la Mauricie - Bois-Francs;
Centre communautaire juridique du Bas St-Laurent - Gaspésie;
Centre communautaire juridique de la Côte-Nord;
Centre communautaire juridique de l'Abitibi-Témiscamingue.

Local centres:

Clinique juridique populaire de Hull Inc., Outaouais.

b) Professional Liability Fund

The purpose of this fund is to pay settlements resulting from liability lawsuits involving the network's lawyers and the Commission's commissioners.

c) Fire and Theft Fund

The purpose of this fund is to pay costs related to fire or theft in the network's premises.

d) Net assets allocated for the general reserve

The general reserve set up by the Commission is used to carry out the Commission's obligations and commitments.

e) Accounting estimates

To draw up the financial statements, Commission management must make estimates and assumptions that affect the amounts presented as assets and liabilities, the presentation of eventual assets and liabilities as at the date of the financial statements and the amounts presented as receipts and charges for the fiscal year. The actual results may differ from these estimates.

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004

2. ACCOUNTING POLICIES (cont'd)**f) Acknowledgement of proceeds**

Regular Commission grants are posted to the results of the fiscal year whose charges they cover.

Special grants are posted to proceeds using the deferral method, which involves recording the proceeds in the books as the various charges are posted.

Special grants used to acquire fixed assets are deferred and amortized at the same rate as the said fixed assets.

g) Private practice (Section 52)

Professional fees, legal fees and interest paid to private practice (Section 52) are recorded on a cash basis and revenue is recorded according to amounts authorized by the Gouvernement du Québec.

h) Services for a fee

Revenue from administrative expenses is recorded on a cash basis. Other contributions from beneficiaries are recorded on a cash basis for files closed during the year.

i) Bills for expenses and reimbursement of legal aid costs

Bills for expenses and reimbursement of legal aid costs are recorded on a cash basis.

j) Investments

Investments are recorded at acquisition cost.

k) Fixed assets

Fixed assets are recorded at cost and amortized using the straight-line method as follows:

Office furniture and equipment	5 years
Computer and office automation equipment	3 years
Computer development	5 years

l) Salaries

Employees' salaries are recorded on an accrual basis for the 26 regular pay periods, except for vacation pay and provisions for bonuses, which are recorded on a cash basis and indicated in Note 17 c.

m) Fund transfers

Under the resolutions of the Commission, the reserve of the Fire and Theft Fund and the Professional Liability Fund must be \$300 000 and \$500 000 respectively. Any surplus or deficit of revenue over expenditure must be transferred to the General Fund.

n) Future fringe benefits

The employees of the Commission and the regional centres participate in one of the following defined-benefit plans administered by the Commission administrative des régimes de retraite et d'assurance (CARRA):

- Government and Public Employees Retirement Plan (RREGOP);
- Civil Service Superannuation Plan (CSSP);
- Pension Plan of Management Personnel (PPMP).

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004

2. ACCOUNTING POLICIES (cont'd)

n) Future fringe benefits (cont'd)

The Gouvernement du Québec is responsible for paying a portion or all of the benefits of these interentreprise retirement plans.

The Commission records the charges related to these retirement plans based on the amount of the contributions payable, which totalled \$1 742 590 for the fiscal year (\$1 767 232 for the previous fiscal year).

3. CHANGE IN ACCOUNTING POLICY

During the year, the Commission retroactively used the Québec government's rules governing capitalization of fixed assets and their amortization, and those governing capital lease contracts. In the past, fixed assets and payments under capital lease contracts were posted directly to expenditures. This change in accounting policy resulted in an increase in fixed assets of \$1 952 729 at March 31, 2003 and \$1 978 262 at March 31, 2004; obligations linked to capital lease contracts of \$409 146 at March 31, 2003 and \$380 319 at March 2004; net assets invested in fixed assets of \$1 543 583 at March 31, 2003 and \$1 325 140 at March 31, 2004; the recording of amortization charges of \$901 527 for fiscal 2003 and \$909 225 for fiscal 2004; and interest on the obligations linked to capital lease contracts of \$44 535 for fiscal 2003 and \$44 217 for fiscal 2004.

4. RESTRICTIONS ON CASH USE

Certain community legal centre employees invoked a collective agreement clause enabling them to have amounts deducted at the source for a future paid sabbatical. The amounts deposited in trust for this purpose have been included with cash and total \$529 754 (\$490 651 in 2003).

5. OTHER REVENUE

	2004	2003
Operations		
Services for a fee ^a	\$846 841	\$867 038
Bill for expenses	54 463	35 634
Reimbursement of legal aid costs	344 777	276 852
Interest	320 240	219 002
Other	114 412	2 139
Net expenditure of the Professional Liability Fund and the Fire and Theft Fund	(72 839)	(46 038)
	<u>\$1 607 894</u>	<u>\$1 354 627</u>
Private practice (Section 52)		
Contributions from beneficiaries	<u>\$579 389</u>	<u>\$563 371</u>

a Effective January 1, 1997, certain beneficiaries are eligible for services under the Legal Aid Act for a fee.

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004

5. OTHER REVENUE (cont'd)**Services for a fee**

	2004	2003
Contributions from beneficiaries	\$586 877	\$598 495
Administrative expenses	259 467	268 123
Interest	497	420
	<u>\$846 841</u>	<u>\$867 038</u>

6. GENERAL RESERVE

Excess proceeds over charges for the fiscal year include \$28 238 (\$552 109 in 2003), which represents excess Gouvernement du Québec grants for court fees on invoicing of these fees.

7. APPLICATION OF THE GENERAL RESERVE

The charges and amounts invested in fixed assets for the year include the following amounts from the general reserve used via a resolution adopted by management:

	2004	2003
Informatics master plan		
Data processing equipment and software	\$272 943	\$244 457
Professional services	37 183	32 650
Other expenditure	7 343	25 715
Revision of salaries for past years	496 465	28 447
Training	778	12 968
	<u>814 712</u>	<u>344 237</u>
Amounts posted to operating fees for the year	814 712	344 237
Amounts invested in fixed assets	209 239	565 909
Instalments on capital lease contracts	57 574	12 312
	<u>1 081 525</u>	<u>922 458</u>
Account payment – private practice	628 385	2 944 000
	<u>\$1 709 910</u>	<u>\$3 866 458</u>

8. PRIVATE PRACTICE CHARGES

This amount includes \$1 977 481 (\$3 562 677 in 2003) linked to certain court decisions concerning the enforcement and interpretation of the Legal Aid Act and the agreement of private practice rates.

At the request and on behalf of the Ministère de la Justice du Québec, the Commission managed the payment of the invoices generated by these decisions. Additional appropriations were granted to the Commission to do so since this business was considered outside the regular legal aid system.

COMMISSION DES SERVICES JURIDIQUESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004**9. CASH FLOW INFORMATION**

Changes in working capital elements are as follows:

	2004	2003
Operations		
Accounts receivable	\$(283 507)	\$226 212
Prepaid expenses	34 663	24 065
Advances on deferred salaries	24 851	(25 407)
Accounts payable	554 690	(1 260 479)
Deferred salaries	(57 392)	(73 014)
Amounts collected in advance - special projects	264 265	
Amounts collected in advance	(3 966)	(6 689)
	<u>\$533 604</u>	<u>\$(1 115 312)</u>
Private practice		
Accounts receivable	\$(180 406)	\$2 708 431
Accounts payable	241 404	(86 432)
Amounts collected in advance	45 615	66 224
	<u>\$106 613</u>	<u>\$2 688 223</u>

Cash flows related to operations include interest paid in the amount of \$44 217 \$ (\$44 535 in 2003).

10. ACCOUNTS RECEIVABLE

	2004	2003
Accrued interest	\$4 345	\$3 987
Advance to the Professional Liability Fund	10 158	15 511
Advance to the Fire and Theft Fund	6 961	12 219
Gouvernement du Québec grants		
Private practice	415 975	235 569
Temporary voluntary departure program	703 885	833 541
Special projects - one-time	427 517	
Other	45 843	60 555
	<u>\$1 614 684</u>	<u>\$1 161 382</u>

11. SHORT-TERM INVESTMENTS

	2004	2003
Professional Liability Fund		
Deposit certificates with the National Bank of Canada, 1.75% (2.75% in 2003), maturing in April 2004	<u>\$500 000</u>	<u>\$311 260</u>
Fire and Theft Fund		
Deposit certificates with the National Bank of Canada, 1.75% (2.75% in 2003), maturing in April 2004	<u>\$300 000</u>	<u>\$250 000</u>

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004

12. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net value
Office furniture and equipment	\$942 433	\$402 657	\$539 776
Computer and office automation equipment	2 971 100	1 949 388	1 021 712
Computer development	639 283	633 680	5 603
	<u>4 552 816</u>	<u>2 985 725</u>	<u>1 567 091</u>
Fixed assets acquired under capital lease contracts			<u>1 564 308</u>
Office furniture and equipment	688 511	313 406	375 105
Computer and office automation equipment	297 848	261 782	36 066
	<u>986 359</u>	<u>575 188</u>	<u>411 171</u>
	<u>\$5 539 175</u>	<u>\$3 560 913</u>	<u>\$1 978 262</u>
			<u>\$1 952 729</u>

13. ACCOUNTS PAYABLE

	2004	2003
Accounts payable and accruals	\$1 263 472	\$1 049 191
Temporary voluntary departure program	1 119	780 823
Owing to General Fund, interest-free	17 119	27 730
Salaries and source deductions	1 281 028	443 382
Court costs		
Operations	1 168 449	885 982
Private practice	998 313	756 909
	<u>\$4 729 500</u>	<u>\$3 944 017</u>

14. AMOUNTS COLLECTED IN ADVANCE

	2004	2003
Special projects (Note 15)	\$264 265	
Services for a fee – permanence	644 486	\$648 452
Services for a fee – private practice	915 842	870 227
	<u>\$1 824 593</u>	<u>\$1 518 679</u>

15. GRANTS FOR SPECIAL PROJECTS

The Commission received one-time subsidies to carry out special projects.

The amounts received were used as follows:

	2004	2003
Amounts granted	\$1 133 665	
Amounts used to finance fees related to special projects in the year	(593 690)	
Amounts used to acquire fixed assets	(275 710)	
Amounts collected in advance	<u>\$264 265</u>	

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004**15. GRANTS FOR SPECIAL PROJECTS (cont'd)**

Special projects related to fixed assets

	2004	2003
Special grants used to acquire fixed assets	\$275 710	
Amortization posted to proceeds for the year	(2 907)	
	<u>\$272 803</u>	

16. COMMITMENTS UNDER CAPITAL LEASES

	2004	2003
Commitments under capital leases		
maturing in 2009	\$380 319	\$409 146
Current portion	<u>126 623</u>	<u>135 027</u>
	<u>\$253 696</u>	<u>\$274 119</u>

Amounts payable and the balance of obligations are as follows:

	2004
2005	\$163 084
2006	154 890
2007	84 553
2008	34 553
2009	<u>16 154</u>
	453 234
Amount representing interest at rates varying from 2.84% to 17.53%	<u>72 915</u>
Balance of obligations	<u>\$380 319</u>

17. COMMITMENTS**a) Professional fees, legal fees and interest paid to private practice (Section 52)**

As at March 31, 2004, mandates referred to professionals in private practice but unpaid or invoiced by the latter, are estimated to amount to approximately \$49 000 000 (2003: \$49 000 000) and break down as follows:

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004

17. COMMITMENTS (cont'd)**a) Professional fees, legal fees and interest paid to private practice (Section 52) (cont'd)**

	Civil	Criminal	Notarial	Total
Mandates issued under the old Legal Aid Act as at September 26, 1996				
1973-1997	\$300 000	\$200 000		\$500 000
Mandates issued since September 26, 1996 under the new Legal Aid Act				
Free services				
1996-2000	750 000	820 000		1 570 000
2000-2001	1 050 000	800 000		1 850 000
2001-2002	1 980 000	2 425 000	\$5 000	4 410 000
2002-2003	5 200 000	4 600 000	10 000	9 810 000
2003-2004	16 090 000	13 000 000	20 000	29 110 000
	25 070 000	21 645 000	35 000	46 750 000
Service for a fee				
1996-2000	50 000	50 000		100 000
2000-2001	50 000	50 000		100 000
2001-2002	150 000	50 000		200 000
2002-2003	200 000	100 000		300 000
2003-2004	850 000	200 000		1 050 000
	1 300 000	450 000		1 750 000
Total commitments	\$26 670 000	\$22 295 000	\$35 000	\$49 000 000

Since required contributions cannot exceed the actual cost of cases, it is impossible to assess the attendant revenue. This revenue will be recorded as revenue when the claim form is paid.

The estimated costs for mandates referred to private practice were determined by the Commission des services juridiques.

Under total commitments, management estimates that the value of services rendered at fiscal year-end breaks down as follows:

	2004	2003
Services invoiced prior to March 31 but not paid	\$1 467 656	\$1 332 968
Services rendered but not invoiced at March 31	33 700 000	32 700 000
Total accounts payable and accrued liabilities	\$35 167 656	\$34 032 968

b) Lease

The Commission and the community legal centres are committed to leases for office space and equipment which call for lease payments of \$15 884 309. The minimum lease payments for the next five fiscal are as follows:

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd) as at March 31, 2004

17. COMMITMENTS (cont'd)

b) Lease (cont'd)

2005	\$5 109 944
2006	3 660 747
2007	2 915 094
2008	2 467 002
2009	1 763 600

c) Accumulated vacation time

The value of vacation time at March 31, 2004 is estimated at \$6 010 820 (\$5 796 408 in 2003).

18. CONTINGENCIES

- a) Proceedings have been instituted against some community legal centres and the Commission. Should the Commission be called upon to settle claims for amounts that are presently impossible to assess, the resulting loss would be recorded as period costs. This amount pertains to professional lawsuits for which a professional liability fund has been provided for in the financial statements.
- b) When the fiscal year was closing, talks were under way regarding renewal of two collective agreements that ended on June 30, 2003 and June 30, 2003, and the wage equity file. At present, it is impossible to determine the amount to be paid retroactively. Charges related to these elements will be charged when known.

Management believe that these charges will be financed from additional government grants.

- c) At the end of the fiscal year, lawsuits were under way regarding the application and interpretation of the Legal Aid Act and the agreement on the rates of private practice. As of the date of the financial statements, the Commission was awaiting court decisions and it is impossible to determine the amount that will be paid retroactively. Consequently, no provision has been included in the financial statements.

19. RELATED PARTY TRANSACTIONS

During the fiscal year, the Commission carried out the following operations with companies controlled by the Gouvernement du Québec. It paid rent of \$4 859 935 (\$4 472 609 in 2003) to the Société immobilière du Québec and court costs to the Minister of Finances du Québec for \$1 921 835 (\$1 341 816 in 2003), \$6 270 (\$12 603 in 2003) to the register fund, \$37 760 (\$40 756 in 2003) to the property information fund and \$200 897 (\$247 716 in 2003) to the director of civil status. A balance of \$2 166 762 (\$1 642 891 in 2003) for court fees was payable at March 31 and is disclosed in Note 13.

20. FINANCIAL INSTRUMENTS

The fair value of cash, receivables, advances on deferred salaries, short-term investments and payables is comparable to their fair value, given that they mature in the near future.

The fair value of the obligations resulting from capital lease contracts cannot be estimated reliably enough since the market has no pre-determined rate for this type of contract.

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004**21. COMPARATIVE FIGURES**

For comparison purposes, the figures for this fiscal year were reclassified. The opening balance of \$143 946 was grouped with the balance of the general reserve.

22. RESULTS AND NET ASSETS ALLOCATED TO THE PRO FORMA GENERAL RESERVE

As mentioned in Note 2, for many years, the Commission has used the cash basis to record private practice honoraria and expenditures, staff vacation time and bonuses and certain receipts.

To record expenditures related to private practice, the Commission des services juridiques has used the cash method for almost 25 years with the knowledge of the Conseil du trésor, the Ministère de la Justice and the Contrôleur des finances, as it has always declared in its annually audited financial statements.

Throughout these years, the Commission des services juridiques never defaulted on its obligations. The reserve formulated in the auditor's report, comes from the change in accounting policies and Chapter 5600 of the CICA handbook, which has been in effect since October 2003.

If the Commission had recorded vacation time, bonuses and private practice honoraria and expenditures on an accrual basis, the effect on the general reserve would have been as follows:

General reserve

	2004	2003
Opening balance		
Previously established	\$3 837 118	\$5 050 597
Adjustment to past years		
Vacation time and bonuses payable	(6 292 873)	(6 132 587)
Private practice honoraria and expenditures accrued	<u>(34 032 968)</u>	<u>(34 402 050)</u>
Adjusted opening balance (deficit)	(36 488 723)	(35 484 040)
Excess revenue over expenditure for the year		
Operations	2 044 131	1 707 353
Private practice	(284 537)	(1 729 254)
Investment in fixed assets	(480 388)	(809 971)
Instalments on capital lease contracts	(207 487)	(172 811)
Instalments to the Professional Liability Fund and the Fire and Theft Fund	<u>(238 740)</u>	<u> </u>
Closing balance (deficit)	<u><u>\$(35 655 744)</u></u>	<u><u>\$(36 488 723)</u></u>

The charges affected by this change in accounting policy would be established as follows for the years in question.

	2004	2003
Operations		
Salaries and fringe benefits	\$56 532 299	\$55 066 551
Private practice	50 917 635	51 850 934

COMMISSION DES SERVICES JURIDIQUES

CONSOLIDATED ADDITIONAL INFORMATION
for the year ended March 31, 2004**EXPENDITURE**

	<u>2004</u>	<u>2003</u>
OPERATIONS		
Administration		
Office furniture and equipment	\$418 648	\$356 269
Other administrative expenses	319 331	268 081
Library	408 644	438 530
Professional assessments	395 888	394 512
Professional training	285 961	330 672
Electricity	3 596	3 957
Maintenance and repairs	342 077	330 342
Office supplies	579 555	579 022
Travelling expenses	923 849	893 446
Postage	336 467	339 070
Information	15 129	29 405
Rent, taxes and permits	5 880 694	5 831 391
Directors' meeting	96 315	92 984
Professional services	719 045	566 167
Telecommunications	679 712	713 193
Depreciation of fixed assets	906 318	901 527
Loss on disposal of fixed assets		560
Interest on obligations resulting from capital lease contracts	44 217	44 535
	<u>12 355 446</u>	<u>12 113 663</u>
Salaries and fringe benefits		
Attorneys	36 130 524	35 004 455
Other	20 448 828	19 901 810
	<u>56 579 352</u>	<u>54 906 265</u>
Judicial fees		
Free services		
Civil	3 288 800	3 082 145
Criminal	328 533	375 786
	<u>3 617 333</u>	<u>3 457 931</u>
Services for a fee		
Civil	79 637	79 547
Criminal	19 953	24 160
	<u>99 590</u>	<u>103 707</u>
	<u>3 716 923</u>	<u>3 561 638</u>
Amounts carried forward	<u>\$72 651 721</u>	<u>\$70 581 566</u>

COMMISSION DES SERVICES JURIDIQUESCONSOLIDATED ADDITIONAL INFORMATION (cont'd)
for the year ended March 31, 2004**EXPENDITURE** (cont'd)

	2004	2003
Amounts brought forward	<u>\$72 651 721</u>	<u>\$70 581 566</u>
PRIVATE PRACTICE (SECTION 52)		
Free services		
Professional fees		
Civil	21 325 444	22 947 938
Criminal	19 645 102	20 681 695
Notarial	38 089	33 337
	<u>41 008 635</u>	<u>43 662 970</u>
Legal fees ¹		
Civil	5 383 925	5 057 114
Criminal	1 302 154	1 390 910
Notarial	37 602	40 844
	<u>6 723 681</u>	<u>6 488 868</u>
Other expenses	108 450	219 462
Interest	25 407	8 411
	<u>133 857</u>	<u>227 873</u>
	<u>47 866 173</u>	<u>50 379 711</u>
Services for a fee		
Professional fees		
Civil	1 177 705	1 200 400
Criminal	408 426	299 111
Notarial	3 545	3 244
	<u>1 589 676</u>	<u>1 502 755</u>
Legal fees ²		
Civil	286 789	300 082
Criminal	40 049	37 266
Notarial	260	202
	<u>327 098</u>	<u>337 550</u>
	<u>1 916 774</u>	<u>1 840 305</u>
	<u>49 782 947</u>	<u>52 220 016</u>
	<u>\$122 434 668</u>	<u>\$122 801 582</u>

1 Includes legal fees in the amount of \$5 216 426 (2003: \$5 116 690) and other fees in the amount of \$1 507 255 (2003: \$1 372 178).

2 Includes legal fees in the amount of \$276 008 (2003: \$278 711) and other fees in the amount of \$51 090 (2003: \$58 839).

COMMISSION DES SERVICES JURIDIQUES

CONSOLIDATED ADDITIONAL INFORMATION (cont'd)
for the year ended March 31, 2004

CONSOLIDATED RESULTS – SPECIAL PROJECTS

	<u>2004</u>	<u>2003</u>
REVENUE (Note 15)		
Special grants - charges	\$593 690	
Amortization of deferred special grants for fixed assets	<u>2 907</u>	
	<u>596 597</u>	
EXPENDITURE		
Administration		
Office furniture and equipment	93 514	
Other administrative expenses	5 972	
Library	6 377	
Professional assessments	4 324	
Professional training	60	
Maintenance and repairs	17 603	
Office supplies	22 308	
Travelling expenses	5 460	
Postage	986	
Rent, taxes and permits	11 216	
Professional services	3 084	
Telecommunications	24 824	
Depreciation of fixed assets	<u>2 907</u>	
	<u>198 635</u>	
Salaries and fringe benefits		
Attorneys	347 387	
Other	<u>50 575</u>	
	<u>397 962</u>	
	<u>596 597</u>	
EXCESS REVENUE OVER EXPENDITURE	<u><u> </u></u>	<u><u> </u></u>

COMMISSION DES SERVICES JURIDIQUES**AUDITORS' REPORT**

To the members of the
Commission des services juridiques

We have audited the consolidated balance sheet of the Commission des services juridiques as at March 31, 2004 and the consolidated statements of results, change in net assets and cash flow of the General Fund, and the statement of changes in the balance of the Professional Liability Fund and the Fire and Theft Fund for the year then ended. These financial statements are the responsibility of Commission management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

Vacation time, bonuses, receipts from contributions and bills of fees and expenditures related to private practice are recorded on a cash basis rather than an accrual basis. The Commission des services juridiques has recorded its expenditures related to private practice this way for almost 25 years, as it has always declared in its financial statements (see Note 2 g).

In this respect, the financial statements do not comply with the accounting principles generally recognized in Canada. If the cash basis had been used to record vacation time, bonuses and private practice honoraria and expenditures, excess proceeds over operating costs for the fiscal year would have been \$47 053 higher (\$160 286 lower in 2003), excess proceeds over expenditures for private practice would have been \$1 134 688 lower (\$369 082 higher in 2003), the closing balance of the general reserve would have been \$41 413 476 lower (\$40 325 841 in 2003), and accounts payable and accrued liabilities would have been higher by the amount disclosed in Note 22. Recording receipts from contributions and bills of fees on an accrual basis rather than a cash basis would not have a significant impact on the organization's operating results or financial position.

In our opinion, with the exception of the effects of not recording vacation time, bonuses and honoraria related to private practice on an accrual basis as disclosed in the previous paragraph, these consolidated financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2004 and the results of its operations and its cash flows for the year then ended, in accordance with the auditing standards that are generally accepted in Canada.

Harel Drouin – PKF, S.E.N.C.R.L.
Chartered Accountants

Montréal, May 17, 2004

COMMISSION DES VALEURS MOBILIÈRES DU QUÉBEC
(R.S.Q., c. V-1.1)

REVENUE AND EXPENDITURE
for the ten-month period ended January 31, 2004

	2004 (10 months)	2003 (12 months)
REVENUE		
Dues (Note 3)	\$22 125 651	\$30 654 767
Settlement agreements and fines	653 734	1 150 859
Interest on short-term investments	1 711 012	1 904 313
	<u>24 490 397</u>	<u>33 709 939</u>
EXPENDITURE		
Salaries and fringe benefits	16 021 518	17 275 230
Rent	2 063 932	2 413 844
Transportation and communications	1 419 179	1 298 757
Professional and administrative services	3 854 829	3 885 887
Reimbursement of expenses incurred by the Government for law enforcement	308 659	141 351
Maintenance and repairs	334 794	340 337
Material, supplies and miscellaneous	372 467	435 213
Bad debts	221 100	1 008 395
Depreciation of fixed assets	1 070 499	1 448 958
	<u>25 666 977</u>	<u>28 247 972</u>
EXCESS EXPENDITURE OVER REVENUE	<u>\$(1 176 580)</u>	<u>\$5 461 967</u>

SURPLUS
for the ten-month period ended January 31, 2004

	2004 (10 months)			
	Unappropriated surplus	Contingency reserve (Note 8)	Reserved Fund (Note 9)	Total
Balance, beginning of year	\$16 883 400	\$33 529 869	\$14 600 000	\$65 013 269
Excess expenditure over revenue	(1 176 580)			(1 176 580)
Appropriated during fiscal year	(22 000)		22 000	
Balance, end of year	<u>\$15 684 820</u>	<u>\$33 529 869</u>	<u>\$14 622 000</u>	<u>\$63 836 689</u>
	2003 (12 months)			
	Unappropriated surplus	Contingency reserve	Reserved Fund	Total
Balance, beginning of year	\$29 206 207	\$30 345 095		\$59 551 302
Excess revenue over expenditure	5 461 967			5 461 967
Appropriated during fiscal year	(17 784 774)	3 184 774	\$14 600 000	
Balance, end of year	<u>\$16 883 400</u>	<u>\$33 529 869</u>	<u>\$14 600 000</u>	<u>\$65 013 269</u>

COMMISSION DES VALEURS MOBILIÈRES DU QUÉBEC

BALANCE SHEET
as at January 31, 2004

	January 31, 2004	March 31, 2003
ASSETS		
Current assets		
Cash on hand	\$2 916 238	\$1 041 545
Short-term investments (Note 5)	12 874 832	25 275 000
Dues, settlement agreements and fines receivable	1 342 293	2 234 209
Accrued fees receivable	1 395 240	
Interest receivable	966 953	1 113 690
Other accounts receivable	146 935	80 899
Prepaid expenses	268 497	525 138
	<u>19 910 988</u>	<u>30 270 481</u>
Investments (Note 5)	48 151 869	36 730 426
Fixed assets (Note 6)	<u>5 205 315</u>	<u>4 965 386</u>
	<u>53 357 184</u>	<u>41 695 812</u>
	<u>\$73 268 172</u>	<u>\$71 966 293</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$3 673 795	\$2 228 761
Provision for vacation time (Note 7)	1 675 725	1 612 887
Dues to be refunded	806 462	495 825
Revenue collected in advance	286 179	
Amount owed to the Gouvernement du Québec	312 904	143 851
	<u>6 755 065</u>	<u>4 481 324</u>
Provision for sick leave (Note 7)	<u>2 676 418</u>	<u>2 471 700</u>
	<u>9 431 483</u>	<u>6 953 024</u>
SURPLUS		
Unappropriated surplus	15 684 820	16 883 400
Contingency reserve (Note 8)	33 529 869	33 529 869
Reserved Fund (Note 9)	<u>14 622 000</u>	<u>14 600 000</u>
	<u>63 836 689</u>	<u>65 013 269</u>
	<u>\$73 268 172</u>	<u>\$71 966 293</u>
CONTINGENCIES (Note 10)		
EVENT SUBSEQUENT TO DATE OF FINANCIAL STATEMENTS (Note 12)		

On behalf of the Commission,
Jean St-Gelais

COMMISSION DES VALEURS MOBILIÈRES DU QUÉBEC

CASH FLOW
for the year ended January 31, 2004

	2004 (10 months)	2003 (12 months)
OPERATING ACTIVITIES		
Excess expenditure over revenue	\$(1 176 580)	\$5 461 967
Adjustments for:		
Depreciation of fixed assets	1 070 499	1 448 958
Earnings on sale of fixed assets	(10 267)	(6 086)
	(116 348)	6 904 839
Change in non-cash elements related to operations:		
Decrease in fees and other debtors	825 880	1 343 945
Increase in accrued fees receivable	(1 395 240)	
Decrease in interest receivable	146 737	168 105
Change in prepaid expenses	256 641	(95 169)
Change in creditors and accrued liability	1 445 034	(4 319 126)
Increase in the provision for sick leave	204 718	344 377
Increase in the provision for vacation time	62 838	356 124
Increase in revenue collected in advance	286 179	
Increase in refundable fees	310 637	58 038
Increase in the amount owed to the Gouvernement du Québec	169 053	81 062
	2 312 477	(2 062 644)
Cash flows related to operating activities	2 196 129	4 842 195
INVESTMENT ACTIVITIES		
Acquisition of investments	(56 828 485)	(57 035 845)
Sale of investments	45 407 042	60 926 479
Acquisition of fixed assets	(1 310 428)	(924 180)
Proceeds from the sale of fixed assets	10 267	6 086
Cash flows related to investment activities	(12 721 604)	2 972 540
NET CHANGE IN CASH AND CASH EQUIVALENT	(10 525 475)	7 814 735
CASH AND CASH EQUIVALENT, BEGINNING OF YEAR	26 316 545	18 501 810
CASH AND CASH EQUIVALENT, END OF YEAR	\$15 791 070	\$26 316 545
REPRESENTED BY:		
Cash on hand	\$2 916 238	\$1 041 545
Short-term investments	12 874 832	25 275 000
	\$15 791 070	\$26 316 545

COMMISSION DES VALEURS MOBILIÈRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

January 31, 2004

1. CONSTITUTION AND PURPOSE

The Commission des valeurs mobilières was established by the Securities Act (R.S.Q., c. V-1.1) for the purpose of administering said Act and performing the functions provided for therein.

The Commission is a legal person acting as an agent of the Government.

Its mission is to:

- promote the smooth operation of the securities market;
- protect investors from dishonest, fraudulent and abusive practices;
- control the information of security holders and the public regarding persons making public offerings and the securities offered;
- supervise the activities of securities professionals, their associations, and organizations responsible for overseeing the operations of securities markets.

Under the Income Tax Act (RSC 1985, c. 1, 5th supplement) and the Taxation Act (R.S.Q., c. I-3), the Commission is not subject to income tax.

2. ACCOUNTING POLICIES

The financial statements of the Commission were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. These estimates include a provision for retroactive payment of a group of Commission employees, for which negotiations will continue in the coming fiscal year. The amount of this provision may vary significantly once negotiations have terminated.

Investments

Investments are recorded at cost.

Fixed assets

Fixed assets are recorded at cost and depreciated on a straight-line basis over their service lives:

Data processing equipment	3 years
Software	3 years
Office equipment	5 years
Office furniture	5 years
Leasehold improvements – Equipment	5 years
Leasehold improvements – Layout	period finishing in September 30, 2013

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans.

COMMISSION DES VALEURS MOBILIÈRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
January 31, 2004**3. DUES**

	2004 (10 months)	2003 (12 months)
Corporate financing	\$15 944 230	\$21 530 924
Inscriptions	3 213 766	4 720 877
Financial information	2 870 167	4 237 852
Inspections	88 240	157 030
Other	9 248	8 084
	<u>\$22 125 651</u>	<u>\$30 654 767</u>

Section 271.12 of the regulation respecting securities provides for a 15% reduction of the fees payable for the period March 1, 2003 to February 28, 2006. The reduction granted in ten-month period ending January 31, 2004 was \$3 806 836 (\$338 654 for March 2003), breaking down as follows: \$2 775 139 (\$183 929 in March 2003) for company funding, \$518 802 (\$89 009 in March 2003) for registration, \$502 804 (\$64 633 in March 2003) for financial information and \$10 091 (\$1 083 in March 2003) for inspection. This reduction is designed to eliminate the unappropriated surplus.

4. FINANCIAL INSTRUMENTS**Fair value**

The short-term fair value of financial instruments and investments is equivalent to their book value, given that they mature in the near future.

5. INVESTMENTS

Investments comprise demand deposits, deposit certificates and guaranteed promissory notes bearing interest at a fixed rate until maturity; these rates fall between 2.38% and 3.67%. These investments mature during the coming fiscal year. A portion of these investments is presented as long-term since they will be renewed at maturity and are not held in order to meet short-term cash commitments.

	2004	2003
Investments	\$61 026 701	\$62 005 426
Portion of investments presented as short-term	<u>(12 874 832)</u>	<u>(25 275 000)</u>
	<u>\$48 151 869</u>	<u>\$36 730 426</u>

6. FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Data processing equipment	\$2 034 471	\$1 505 849	\$528 622	\$515 079
Software	1 149 620	962 001	187 619	274 871
Office equipment	660 775	547 659	113 116	188 564
Office furniture	2 525 840	2 049 176	476 664	420 914
Leasehold improvements – Equipment	172 581	143 147	29 434	51 937
Leasehold improvements – Layout	4 424 068	554 208	3 869 860	3 514 021
	\$10 967 355	\$5 762 040	\$5 205 315	\$4 965 386

COMMISSION DES VALEURS MOBILIÈRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
January 31, 2004

7. FRINGE BENEFITS**Pension plans**

The staff members of the Commission participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are defined-benefit plans and include guaranteed payments upon retirement and death.

The Commission's contributions charged to results on the ten-month year-end statement amount to \$485 385 (2003: \$548 195). The liability of the Commission towards this Government plan is restricted to its contributions as an employer.

Provision for sick leave

	2004 (10 months)	2003 (12 months)
Opening balance	\$2 471 700	\$2 127 323
Expenditures for the year	484 572	663 013
Benefits paid during the year	(279 854)	(318 636)
Closing balance	<u>\$2 676 418</u>	<u>\$2 471 700</u>

Provision for vacation time

	2004 (10 months)	2003 (12 months)
Opening balance	\$1 612 887	\$1 256 763
Expenditures for the year	1 089 460	1 324 144
Benefits paid during the year	(1 026 622)	(968 020)
Closing balance	<u>\$1 675 725</u>	<u>\$1 612 887</u>

8. CONTINGENCY RESERVE

As stipulated in section 276.4 of the Securities Act (R.S.Q., c. V-1.1), the Commission resolved to create a contingency reserve of a maximum of the higher of \$30 000 000 or total expenses estimated for the Commission's coming fiscal year based on the plan proposed to the Government. This reserve was created to offset unforeseen changes in the Commission's expenditures or revenues. Since the Agence nationale d'encadrement du secteur financier (hereinafter referred to as the Autorité des marchés financiers) will replace the Commission, the contingency reserve at January 31, 2004 was maintained at the amount established on March 31, 2003, regardless of the amount of spending foreseen for the Autorité des marchés financiers' coming fiscal year.

9. RESERVED FUND

As stipulated in section 276.4 of the Securities Act (R.S.Q., c. V-1.1), the Commission may, with the government's authorization, create a fund for a specific purpose. During the previous fiscal year, the government authorized the creation of a separate fund for the assistance, development, supply and provision of various services in the areas related to its mission and investor education.

COMMISSION DES VALEURS MOBILIÈRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
January 31, 2004

10. CONTINGENCIES

The Commission is involved in two lawsuits for damages in the amount of \$117 154 811 and \$53 750 000 respectively. The Commission cannot make any valid forecasts as to the outcome of these lawsuits but feels that the results of these claims will have no significant negative effect on its financial position.

11. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Commission is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Commission did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

12. EVENT SUBSEQUENT TO THE DATE OF THE FINANCIAL STATEMENTS

On December 11, 2002, the National Assembly passed the Act respecting the Agence nationale d'encadrement du secteur financier (Q.S. 2002, c. 45) creating the Agence nationale d'encadrement du secteur financier. This statute makes provision for the Agence to replace the Commission des valeurs mobilières du Québec, acquire its rights and take on its obligations. It will also be responsible for performing the duties and exercising the powers stipulated in the Securities Act (R.S.Q., chap. V-1.1) on a date to be set by the Government.

Because of this change, the fiscal year-end of the Commission des valeurs mobilières du Québec was changed from March 31 to January 31. Consequently, these financial statements cover the ten-month period from April 1, 2003 to January 31, 2004.

13. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

COMMISSION DES VALEURS MOBILIÈRES DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Commission des valeurs mobilières du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management performs periodic audits to ensure that the internal controls applied regularly by the Commission are appropriate and consistent.

The Commission recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

At the audit committee's recommendation, the Commission's assembly of members has adopted the audited financial statements and the auditor's report.

The Auditor General of Québec has audited the Commission's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with management to discuss any matter related to the audit.

Jean St-Gelais
President-Director general
Agence nationale d'encadrement du secteur financier

Linda Levasseur
Director General of Administration

Québec, April 16, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Commission des valeurs mobilières du Québec as at January 31, 2004, the statements of revenue and expenditure and surplus and the statement of cash flow for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at January 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5-01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, April 16, 2004

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC
(R.S.Q., c. C-57.02)

REVENUE AND EXPENDITURE
for the year ended March 31, 2004

	2004	2003 (Note 3)
REVENUE		
Gouvernement du Québec subsidies		
Financial assistance	\$66 694 630	\$62 753 038
Administration fees	5 564 449	5 717 059
	<u>72 259 079</u>	<u>68 470 097</u>
Interest on short-term investments	600 312	638 545
	<u>72 859 391</u>	<u>69 108 642</u>
EXPENDITURE		
Financial assistance granted		
Theatre	21 132 454	21 237 449
Circus arts	636 127	560 165
Music	19 536 775	18 258 947
Visual and media arts	11 549 693	11 381 869
Dance	9 122 221	8 102 818
Literature	3 205 383	2 833 942
Multidisciplinary arts	1 360 656	1 229 876
Other activities	264 000	222 375
	<u>66 807 309</u>	<u>63 827 441</u>
Cancellation of financial assistance granted in previous years	(195 530)	(196 960)
	<u>66 611 779</u>	<u>63 630 481</u>
Interest on long-term debt	100 771	124 290
Administrative expenses (Note 4)	6 120 651	5 998 425
	<u>72 833 201</u>	<u>69 753 196</u>
EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE	<u>\$26 190</u>	<u>\$(644 554)</u>

SURPLUS
for the year ended March 31, 2004

	2004	2003
(DEFICIT) SURPLUS, BEGINNING OF YEAR		
Previously established balance	\$(98 103)	\$551 478
Adjustment (Note 3)	133 670	128 643
Adjusted balance	<u>35 567</u>	<u>680 121</u>
Excess (deficiency) revenue over expenditure	<u>26 190</u>	<u>(644 554)</u>
SURPLUS, END OF YEAR	<u>\$61 757</u>	<u>\$35 567</u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

BALANCE SHEET
as at March 31, 2004

	2004	2003 (Note 3)
ASSETS		
Current assets		
Cash on hand	\$455 306	\$881 706
Short-term investments at 2.22%	3 243 920	3 489 240
Accounts receivable	10 172	16 748
Gouvernement du Québec subsidies receivable	1 298 125	608 912
Advances		3 000
Prepaid expenses	29 344	24 105
	<u>5 036 867</u>	<u>5 023 711</u>
Gouvernement du Québec subsidies receivable	1 200 000	1 600 000
Fixed assets (Note 5)	<u>321 299</u>	<u>427 202</u>
	<u><u>\$6 558 166</u></u>	<u><u>\$7 050 913</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$216 949	\$372 762
Financial assistance payable	3 074 864	3 255 726
Deferred subsidies	350 000	20 148
Portion of long-term debt maturing in the short term	461 287	457 336
	<u>4 103 100</u>	<u>4 105 972</u>
Long-term debt (Note 6)	1 294 118	1 755 405
Financial assistance payable		87 500
Provision for sick leave and vacation time (Note 7)	1 099 191	1 066 469
	<u>6 496 409</u>	<u>7 015 346</u>
SURPLUS	<u>61 757</u>	<u>35 567</u>
	<u><u>\$6 558 166</u></u>	<u><u>\$7 050 913</u></u>
TRUST FUNDS (Note 9)		
COMMITMENTS (Note 12)		

On behalf of the Board of Directors,
Suzanne Masson
Marie-Claire Lévesque

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

CASH FLOWS

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Receipts – government subsidies	\$72 299 718	\$68 859 976
Receipts – interest received	604 593	638 865
Disbursements – financial assistance granted	(66 880 141)	(67 946 830)
Disbursements – suppliers and staff members	(6 042 111)	(5 857 984)
Disbursements – interest paid	<u>(111 879)</u>	<u>(69 494)</u>
Cash flows used for operating activities	<u>(129 820)</u>	<u>(4 375 467)</u>
INVESTMENT ACTIVITIES		
Cash flows used for investment activities		
Acquisition of fixed assets	<u>(84 564)</u>	<u>(171 004)</u>
FINANCING ACTIVITIES		
Long-term debt		2 000 000
Repayment of long-term debt	<u>(457 336)</u>	<u>(53 641)</u>
Cash flows (used for) provided by financing activities	<u>(457 336)</u>	<u>1 946 359</u>
DECREASE IN CASH AND CASH EQUIVALENTS	<u>(671 720)</u>	<u>(2 600 112)</u>
CASH AND CASH EQUIVALENTS		
– BEGINNING OF YEAR	<u>4 370 946</u>	<u>6 971 058</u>
CASH AND CASH EQUIVALENTS		
– END OF YEAR (Note 8)	<u><u>\$3 699 226</u></u>	<u><u>\$4 370 946</u></u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

1. CONSTITUTION AND PURPOSE

The Conseil is a corporation established under the Act respecting the Conseil des arts et des lettres du Québec (R.S.Q., c. C-57.02). It is competent to act in the fields of visual arts, arts and crafts, literature, performing arts, multidisciplinary arts, media arts and in matters of architectural research. The goal of the Conseil is to support creation, experimentation and production in all regions of Québec and to foster the diffusion thereof in Québec and, in compliance with Québec's policies in matters of Canadian intergovernmental affairs and international affairs, elsewhere in Canada and abroad. A further goal of the Conseil is to support artists in the development of their craft. Under section 984 of the Québec Taxation Act and section 149 of the Canadian Income Tax Act, the Conseil is not subject to income tax.

The Conseil administers the following trust funds: "Conseil régional de concertation et de développement du Bas-Saint-Laurent – Fonds dédiés aux arts et aux lettres du Bas-Saint-Laurent", "Conseil régional de développement de la Mauricie – Fonds dédiés aux arts et aux lettres de la Mauricie", "Conseil régional de concertation et de développement de la Gaspésie – Îles de la Madeleine – Fonds dédiés aux arts et aux lettres de la Gaspésie – Îles de la Madeleine", "Conseil régional de développement de Lanaudière – Fonds dédiés aux arts et aux lettres de Lanaudière" and "Fonds Voilà Québec en Mexico!".

2. ACCOUNTING POLICIES

The financial statements of the Conseil were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

The Conseil's accounts do not include those of the trust funds.

Cash and cash equivalents

The Conseil's policy is to present as cash and cash equivalents bank balances and short-term investments maturing in no more than three months.

Short-term investment

Short-term investments are recorded at cost or market value, whichever is less.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Conseil lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Fixed assets

Fixed assets are recorded at cost and amortized using the straight-line method of amortization over the estimated service life, namely:

Furniture and audio-visual equipment	5 years
Computer equipment and development	3 years
Leasehold improvements	Term of lease

Financial assistance granted

The financial assistance granted is recorded when authorized and when the beneficiary meets the eligibility criteria.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

2. ACCOUNTING POLICIES (cont'd)

Recording Gouvernement du Québec subsidies

The subsidies allocated are reported and recorded as revenue for the fiscal year in which the related expenditure occurs. Unappropriated subsidies are recorded as revenue for the fiscal year.

Gouvernement du Québec subsidies receivable are recorded in the fiscal year in which the Conseil obtained the funding or carried out the work entitling it to these subsidies.

3. CHANGES IN ACCOUNTING POLICIES

Gouvernement du Québec subsidies receivable

The Gouvernement du Québec granted a subsidy of \$153 818 for financing expenditures related to the employer portion of the fringe benefits for sick leave and vacation time accumulated by Conseil employees at March 31, 2003.

The retroactive applications of this change increased the following items in the financial statements:

	2003
Results	
Gouvernement du Québec subsidies - Administration	\$5 027
Excess revenue over expenditure	5 027
Balance sheet	
Gouvernement du Québec subsidies receivable	153 818
Deferred subsidies	20 148
Surplus	128 643

4. ADMINISTRATIVE EXPENSES

	2004	2003
Salaries and fringe benefits	\$4 549 217	\$4 281 386
Professional, administrative, and other services	486 382	485 477
Transportation and communications	297 952	435 132
Rent	515 039	526 623
Materials and supplies	73 806	114 904
Maintenance and repairs	7 787	11 738
Depreciation of fixed assets	190 468	143 165
	<u>\$6 120 651</u>	<u>\$5 998 425</u>

5. FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Furniture	\$30 510	\$14 638	\$15 872	\$21 973
Audiovisual equipment	4 650	1 085	3 565	4 495
Computer equipment	157 679	93 824	63 855	80 351
Computer-related development	213 502	119 387	94 115	90 853
Leasehold improvements	360 355	216 463	143 892	229 530
	\$766 696	\$445 397	\$321 299	\$427 202

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**6. LONG-TERM DEBT**

	2004	2003
Borrowing from the Société immobilière du Québec, 6.68%, repayable in monthly instalments of \$5 818, maturing in August 2006	\$155 405	\$212 741
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 5.394% repayable in annual instalments of \$400 000 until April 2, 2007 with the first capital and interest payment guaranteed by a moveable hypothec without delivery on the amount of the subsidy foreseen for the repayment of this borrowing	1 600 000 1 755 405	2 000 000 2 212 741
Payments within one year	461 287	457 336
	<u>\$1 294 118</u>	<u>\$1 755 405</u>

The capital payments to be made over the next four fiscal years are as follows:

2005	\$461 287
2006	465 508
2007	428 610
2008	400 000

7. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Conseil participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Conseil's contributions charged to the year-end statement amount to \$147 888 (2003: \$145 873). The Conseil's liability towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave and vacation time

	2004			2003
	Sick leave	Vacation time	Total	Total
Opening balance	\$613 712	\$452 757	\$1 066 469	\$1 106 576
Charges for the year	156 407	334 950	491 357	482 060
Benefits paid during the year	(142 079)	(316 556)	(458 635)	(522 167)
Closing balance	<u>\$628 040</u>	<u>\$471 151</u>	<u>\$1 099 191</u>	<u>\$1 066 469</u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**8. CASH FLOWS**

The cash and cash equivalents shown in the cash flow statement include the following amounts recorded on the balance sheet:

	2004	2003
Cash on hand	\$455 306	\$881 706
Short-term investments	3 243 920	3 489 240
	<u>\$3 699 226</u>	<u>\$4 370 946</u>

9. TRUST FUNDS**Trust Fund – Conseil régional de concertation et de développement du Bas-Saint-Laurent – Fonds dédiés aux arts et aux lettres du Bas-Saint-Laurent**

Under an agreement signed in December 2002, the Conseil régional de concertation et de développement du Bas-Saint-Laurent and the Conseil régional de la Culture du Bas-Saint-Laurent (CRC) committed to paying \$165 000 in payments that can reach to \$50 000, \$55 000 and \$60 000 spread over the fiscal years ended March 31, 2003, 2004 and 2005 respectively into a trust fund in the context of the regional development fund.

The Conseil serves as fund trustee.

The Conseil pays the amounts to professional artists and artists' associations in Bas-Saint-Laurent according to the terms, conditions and procedures in effect. The agreement ends March 31, 2005. If, as this date, the subsidies awarded do not total \$165 000, the Conseil, the Conseil régional de concertation et de développement du Bas-Saint-Laurent and the Conseil régional de la Culture du Bas-Saint-Laurent will agree on how the amounts available and the interest generated by the Fund will be used.

Balance Sheet

as at March 31, 2004

	2004	2003
Assets		
Cash on hand	\$501	\$40 000
Accrued interest	45	54
Contribution receivable		10 000
	<u>\$546</u>	<u>\$50 054</u>
Liabilities		
Financial assistance payable		\$50 000
Fund balance	\$546	54
	<u>\$546</u>	<u>\$50 054</u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

9. TRUST FUNDS (cont'd)
Trust Fund – Conseil régional de concertation et de développement du Bas-Saint-Laurent – Fonds dédiés aux arts et aux lettres du Bas-Saint-Laurent (cont'd)
Changes in Fund balance

for the year ended March 31, 2004

	2004	2003
Opening Fund balance	\$54	
Increase		
Contributions	54 120	\$50 000
Interest	492	54
	54 666	50 054
Decrease		
Contributions granted	54 120	50 000
Closing Fund balance	\$546	\$54

Trust Fund – Conseil régional de développement de la Mauricie – Fonds dédiés aux arts et aux lettres de la Mauricie

Under an agreement signed in December 2001, the Conseil régional de développement de la Mauricie committed to paying \$150 000 in payments spread equally over the fiscal years ended March 31, 2002, 2003 and 2004 into a trust fund in the context of the regional development fund.

The Conseil serves as fund trustee.

The Conseil pays the amounts to professional artists and artists' associations in Mauricie according to the terms, conditions and procedures in effect. The agreement ended March 31, 2004. However, the Conseil and the Conseil régional de développement de la Mauricie are currently putting the final administrative touches on a renewed agreement (three-year term). When the agreement expired, \$2 200, representing the balance of unused contributions, was given to the Conseil régional de développement de la Mauricie. The Conseil and the Conseil régional de développement de la Mauricie will agree on the use of the interest generated by the Fund.

Balance Sheet

as at March 31, 2004

	2004	2003
Assets		
Cash on hand	\$476	\$256
Accrued interest	1	7
	\$477	\$263
Liabilities		
Financial assistance payable		
Fund balance	\$477	\$263
	\$477	\$263

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

9. TRUST FUNDS (cont'd)

Trust Fund – Conseil régional de développement de la Mauricie – Fonds dédiés aux arts et aux lettres de la Mauricie (cont'd)

Changes in Fund balance

for the year ended March 31, 2004

	2004	2003
Opening Fund balance	\$263	\$25
Increase		
Contributions	50 000	50 000
Interest	214	238
	50 477	50 263
Decrease		
Contributions granted	47 800	
Given to the Conseil régional de développement de la Mauricie	2 200	50 000
Closing Fund balance	\$477	\$263

Trust Fund – Conseil régional de concertation et de développement de la Gaspésie – Îles de la Madeleine – Fonds dédiés aux arts et aux lettres de la Gaspésie – Îles de la Madeleine

Under an agreement signed in March 2003, the Conseil régional de concertation et de développement de la Gaspésie – Îles de la Madeleine committed to paying \$150 000 in payments of \$100 000 and \$50 000 spread over the fiscal years ended March 31, 2004 and 2005 into a trust fund in the context of the regional development fund.

The Conseil serves as fund trustee.

The Conseil pays the amounts to artistic organizations, professional artists and artists' associations in Gaspésie – Îles de la Madeleine according to the terms, conditions and procedures in effect. The agreement ends March 31, 2005. If, as this date, the subsidies awarded do not total \$150 000, the Conseil and the Conseil régional de développement de la Mauricie will agree on how the amounts available and the interest generated by the Fund will be used.

Balance Sheet

as at March 31, 2004

	2004
Assets	
Cash on hand	\$62 631
Accrued interest	30
	\$62 661
Liabilities	
Financial assistance payable	\$62 500
Fund balance	161
	\$62 661

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**9. TRUST FUNDS (cont'd)****Fonds en fidéicommis – Conseil régional de concertation et de développement de la Gaspésie – Îles de la Madeleine – Fonds dédiés aux arts et aux lettres de la Gaspésie – Îles de la Madeleine (cont'd)****Changes in Fund balance**
for the year ended March 31, 2004

	<u>2004</u>
Opening Fund balance	
Increase	
Contribution	\$100 000
Interest	<u>161</u>
	100 161
Decrease	
Contribution granted	<u>100 000</u>
Closing Fund balance	<u><u>\$161</u></u>

Fonds en fidéicommis – Conseil régional de développement de Lanaudière – Fonds dédiés aux arts et aux lettres de Lanaudière

Under an agreement signed in March 2003, the Conseil régional de développement de Lanaudière committed to paying \$150 000 in payments that can reach to \$100 000 and \$50 000 spread over the fiscal years ended March 31, 2004 and 2005 respectively into a trust fund in the context of the regional development fund.

The Conseil serves as fund trustee.

The Conseil pays the amounts to professional artists and artists' associations in Lanaudière according to the terms, conditions and procedures in effect. The agreement ends March 31, 2005. If, as this date, the subsidies awarded do not total \$150 000, the Conseil, the Conseil régional de développement de Lanaudière will agree on how the amounts available and the interest generated by the Fund will be used.

Balance Sheet
as at March 31, 2004

	<u>2004</u>
Assets	
Cash on hand	\$78
Contribution receivable	<u>48 395</u>
	<u><u>\$48 473</u></u>
Liabilities	
Financial assistance payable	\$48 395
Fund balance	<u>78</u>
	<u><u>\$48 473</u></u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

9. TRUST FUNDS (cont'd)

Fonds en fidéicommis – Conseil régional de développement de Lanaudière – Fonds dédiés aux arts et aux lettres de Lanaudière (cont'd)

Changes in Fund balance
for the year ended March 31, 2004

	<u>2004</u>
Opening Fund balance	
Increase	
Contribution	\$88 457
Interest	<u>77</u>
	88 534
Decrease	
Contribution granted	<u>88 456</u>
Closing Fund balance	<u><u>\$78</u></u>

Trust Fund – Fonds Voilà Québec en Mexico!

Under an agreement signed in May 2003, le Bureau des événements du Québec committed to paying an amount of up to \$200 000 into a trust fund in order to subsidize artistic organizations, professional and artists' associations in the context of Voilà Québec en Mexico!

The Conseil serves as fund trustee.

The Conseil pays the amounts to artistic organizations, professional artists and artists' associations according to the terms, conditions and procedures in effect. The agreement ended February 11, 2004. The unused balance of contributions in the amount of \$16 900 plus interest of \$1 773 were paid to the Bureau des événements du Québec. The interest balance of \$17 was paid to the Conseil.

Changes in Fund balance
for the year ended March 31, 2004

	<u>2004</u>
Opening Fund balance	
Increase	
Contributions	\$200 000
Interest	<u>1 792</u>
	201 792
Decrease	
Contributions granted	183 102
Given to the Bureau des événements du Québec	18 673
Interest awarded the Conseil des arts et des lettres du Québec	<u>17</u>
Closing Fund balance	<u><u></u></u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

10. FINANCIAL INSTRUMENTS**Fair value**

The short-term fair value of financial instruments is equivalent to their book value, given that they mature in the near future.

The fair value of the long-term Gouvernement du Québec subsidies receivable and the fair value of the long term debt are determined by capitalizing future cash flows to capitalization rates representing those the Conseil might select the date of the financial statement for borrowing with similar conditions and maturity dates.

The following table shows the book value and the fair value of the subsidies receivable and the long-term debt:

	2004		2003	
	Book value	Fair value	Book value	Fair value
Gouvernement du Québec subsidies Receivable	\$2 498 125	\$2 562 347	\$2 208 912	\$2 251 818
Long-term debt				
Long-term borrowing - Société immobilière du Québec	155 405	159 273	212 741	271 933
Long-term borrowing – Financing Fund Note	1 600 000	1708 528	2 000 000	2 097 999

11. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Conseil is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Conseil did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

12. COMMITMENTS

The Conseil is committed under a long-term occupancy agreement ending March 31, 2005 to the Société immobilière du Québec for the Québec City office and ending August 31, 2006 for the Montréal office.

Rental costs for the fiscal year ended March 31, 2004 for these offices were \$488 460. Minimum future payments are as follows:

2005	\$488 460
2006	319 598
2007	133 166
	<u>\$941 224</u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Conseil des arts et des lettres du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Conseil recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors, through its audit committee, must oversee the way in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Conseil's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Marie-Claire Lévesque
President and Chief Executive Officer

Québec, May 28, 2004

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Conseil des arts et des lettres du Québec as at March 31, 2004 and the statements of revenue and expenditure, surplus and cash flow for the year then ended. I have also audited the balance sheets of the "Conseil régional de concertation et de développement du Bas-Saint-Laurent – Fonds dédiés aux arts et aux lettres du Bas-Saint-Laurent", "Conseil régional de développement de la Mauricie – Fonds dédiés aux arts et aux lettres de la Mauricie", "Conseil régional de concertation et de développement de la Gaspésie – Îles de la Madeleine – Fonds dédiés aux arts et aux lettres de la Gaspésie – Îles de la Madeleine", "Conseil régional de développement de Lanaudière – Fonds dédiés aux arts et aux lettres de Lanaudière" and "Fonds Voilà Québec en Mexico!" trust funds, which are administered by the Conseil, as at March 31, 2004, and the statements of changes in fund balance for the year then ended. The financial statements for these funds are disclosed in Note 9. These financial statements are the responsibility of Conseil management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Conseil's financial position and that of its trust funds as at March 31, 2004 and the results of their operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 28, 2004

CORPORATION D'HÉBERGEMENT DU QUÉBEC
(R.S.Q., c. C-68.1)

INCOME
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
REVENUE		
Interest income	123 269	127 895
Financial management fees	399	659
Rental income:		
- Health network (Note 3)	113 769	106 183
- Other – net (Note 4)	1 500	979
Administrative expenses related to mandated projects	1 940	1 472
Consulting fees	1 271	338
Government of Canada subsidy (Note 5)	440	374
Gain on disposal of buildings intended for sale	17	
Amortization of deferred income	16 136	15 346
Revenue from projects under study but withdrawn	551	235
Other	250	370
	<u>259 542</u>	<u>253 851</u>
EXPENDITURE		
Interest– net (Note 6)	185 694	190 392
Amortization (Note 7)	21 567	18 539
Overall and administrative expenditures (Note 8)	6 713	5 682
Consulting costs	1 145	334
Reduction in value of immoveables		7 922
Loss on disposal of buildings intended for sale		63
Cost related to projects under study but withdrawn	551	235
Information system on network buildings		797
Other charges		77
Client rebate (Note 9)	4 637	
	<u>220 307</u>	<u>224 041</u>
NET INCOME	<u>39 235</u>	<u>29 810</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC

RETAINED EARNINGS
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
OPENING BALANCE	74 163	54 353
Net income	39 235	29 810
Dividend		<u>(10 000)</u>
CLOSING BALANCE *	<u>113 398</u>	<u>74 163</u>

* The amount freed up by the amortization of deferred contributions whose use must be pre-approved by the shareholders as indicated in Note 20 was \$57.6 M at March 31, 2004 (2003: \$42.3 M).

CONTRIBUTED SURPLUS
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
OPENING BALANCE	2 337	1 907
Surplus of fair value over cost of property acquired for a minimal consideration or nothing	<u>5 254</u>	<u>430</u>
CLOSING BALANCE	<u>7 591</u>	<u>2 337</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC
BALANCE SHEET
 as at March 31, 2004
 (in thousands of dollars)

	<u>2004</u>	<u>2003</u>
ASSETS		
Short-term investments (Note 23)	2 488	795
Accounts receivable (Note 10)	25 527	3 262
Rental payments receivable (Note 11)	12 406	13 895
Loans (Note 12)	1 839 122	1 802 254
Claims receivable – mandated projects (Note 13)	367 836	307 075
Fixed assets (Note 14)	1 747 826	1 569 982
Buildings intended for sale (Note 15)	441	1 293
Preliminary studies	28 578	68 069
Other asset items (Note 16)	30 534	23 947
	<u>4 054 758</u>	<u>3 790 572</u>
LIABILITIES		
Outstanding cheques less cash on hand	5 462	2 098
Accounts payable and withholdings on contracts payable	56 024	65 517
Accrued interest (Note 17)	65 687	59 643
Short-term borrowings (Note 18)	1 916 785	1 475 277
Long-term debt (Note 19)	1 759 142	1 981 189
Deferred income (Note 20)	120 669	120 348
	<u>3 923 769</u>	<u>3 704 072</u>
SHAREHOLDER'S EQUITY		
Capital stocks (Note 21)	10 000	10 000
Contributed surplus	7 591	2 337
Retained earnings	113 398	74 163
	<u>130 989</u>	<u>86 500</u>
	<u>4 054 758</u>	<u>3 790 572</u>

COMMITMENTS AND CONTINGENCIES (Note 24)

On behalf of the Board of Directors,
 Michel L. Lesage, President
 Claude Desjardins, Vice-President

CORPORATION D'HÉBERGEMENT DU QUÉBEC**CASH FLOWS**

for the year ended March 31, 2004

(in thousands of dollars)

	2004	2003
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Net income	39 235	29 810
Items not affecting cash and cash equivalents		
Loss (gain) on disposal of buildings intended for sale	(17)	63
Reduction in value of immoveables		7 922
Interest on irregular coupon bonds	9 015	8 617
Interest income attributed to loan balances and mandated projects	(31 550)	(18 808)
Interest attributed to real properties and projects under study	(10 656)	(7 618)
Administrative expenses attributed to mandated projects	(2 282)	(1 594)
Administrative expenses attributed to real properties and projects under study	(2 768)	(3 031)
Client rebate	4 637	
Occupancy expenses attributed to projects under study		(247)
Amortization		
Immoveables	20 417	18 349
Other asset items	2 322	1 139
Deferred income	(16 136)	(15 346)
Net change in assets and liabilities linked to operations		
Accounts receivable	(3 268)	57 877
Rental payments receivable	1 489	2 006
Accounts payable and withholdings on contracts payable	(3 634)	(8 781)
Accrued interest	6 044	(3 973)
	<u>12 848</u>	<u>66 385</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Receipts from loans	1 054 626	979 956
Loan disbursement	(1 068 959)	(1 000 335)
Receipts from accounts payable – mandated projects	74 979	145 830
Receivables disbursement – mandated projects	(121 065)	(90 588)
Cash inflow of Gouvernement du Québec receivables linked to the long-term debt	5 366	19 458
Disbursement of Gouvernement du Québec receivables linked to the long-term debt	(7 980)	(10 958)
Acquisition of immoveables	(172 246)	(171 237)
Acquisition of buildings intended for sale	(5)	
Proceeds from the disposal of buildings intended for sale	51	
Receipts from projects under study	29 171	
Disbursements for projects under study	(22 902)	(43 628)
Acquisition of other assets	(8 489)	(6 121)
Proceeds from the sale of other assets	700	63
	<u>(236 753)</u>	<u>(177 560)</u>
Amounts carried forward	<u>(223 905)</u>	<u>(111 175)</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC

CASH FLOWS (cont'd)
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
Amounts brought forward	<u>(223 905)</u>	<u>(111 175)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Short-term borrowings	6 503 430	8 977 547
Repayment of short-term borrowings	(6 061 922)	(8 687 398)
Long-term borrowings	166 748	162 304
Repayment of long-term debt	(397 123)	(332 269)
Net increase in deferred income	11 101	10 139
Payment of a dividend	<u> </u>	<u>(10 000)</u>
	<u>222 234</u>	<u>120 323</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(1 671)</u>	<u>9 148</u>
CASH AND CASH EQUIVALENT, BEGINNING OF YEAR	<u>(1 303)</u>	<u>(10 451)</u>
CASH AND CASH EQUIVALENT, END OF YEAR (Note 26)	<u>(2 974)</u>	<u>(1 303)</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS**

as at March 31, 2004

(in thousands of dollars)

1. CONSTITUTION, PURPOSE AND ACTIVITIES

Until November 30, 1999, the Corporation d'hébergement du Québec (the Corporation) was a non-profit organization created under Part III of the Québec Companies Act. On December 1, 1999, the Corporation became a corporate entity with partnership capital, incorporated under the Act respecting the Corporation d'hébergement du Québec (R.S.Q., c. C-68.1).

The Corporation's mission is, for consideration and with a view to self-financing, to offer health and social services players technical and financial expertise as the funding required for the management, construction, maintenance and acquisition of immoveables, equipment and health and social service infrastructures.

Its mission also includes owning, and renting out for consideration, property used or to be used by a health and social services establishment, development agency, regional council contemplated in the Act respecting health services and social services (R.S.Q., c. S-4.2) or the Act respecting health services and social services for Cree Native persons (R.S.Q., c. S-5) or any other person, corporation or association designated for this purpose by the Minister or the Government. The sections of the legislation allowing the Corporation to finance itself came into effect only on April 1, 2000.

2. MAIN ACCOUNTING POLICIES

The financial statements of the Corporation were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

IMMOVEABLES**Operational buildings**

The buildings purchased by the Corporation are recorded at cost or fair value when the consideration is minimal or nothing. The surplus of the fair value of property over its cost is recorded under the contributed surplus. The surplus of the fair value of buildings over their cost is recorded under deferred contributions.

The buildings are amortized according to the annuity method (growing allotment), at a rate of 5% for amortization periods ranging from 35 to 50 years.

Property improvement and development costs and the costs added to buildings subject to an emphyteutic lease are amortized using the annuity method at a rate of 5% for a period equivalent to their service life or the duration of the emphyteutic lease, whichever is less.

Buildings under construction

The cost of buildings under construction includes, in addition to direct costs, a relevant fraction of the related overall and administrative expenditures and financing costs. Financing costs are capitalized to buildings under construction until they are transferred to operational buildings.

Leased furniture and equipment

Leased furniture and equipment attributable to immoveables are recorded at cost. The amortization is calculated over the estimated service life using the straight-line method over a period of 10 years.

Buildings intended for sale

Buildings intended for sale are evaluated at the amortized cost and its fair value minus the selling cost. The Corporation stops recording amortization as soon as it decides to sell.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

2. PRINCIPALS ACCOUNTING POLICIES (cont'd)

PROJECTS UNDER STUDY

In addition to direct costs, projects under study include administrative expenses and financing charges, which are recorded until study costs are transferred to construction or repair costs or until the costs of the studies is reimbursed by the Ministère de la Santé et des Services sociaux for projects that will not be implemented.

CAPITALIZED INTEREST

The portion of the interest expense attributable to immovables under construction is capitalized taking into account the weighted average interest rate for short-term borrowings.

OTHER ASSETS

Issuing expenses, discount charges and premiums related to the long-term debt

Discounts, premiums and issuing expenses linked to the long-term debt are recorded and amortized over the duration of the respective debt according to the straight-line method.

Deferred charges - conservation

Conservation expenses incurred on immovables are recorded to deferred charges and amortized according to the straight-line method over 15 years once projects have been completed in their entirety. The amounts can be invoiced to lessees. The expenses are recovered over the same 15-year period.

Computer system development expenses

Computer system development expenses are recorded at cost and amortized according to the straight-line method over 5 years.

Furniture and equipment

The furniture and equipment used for administrative purposes is recorded at cost. The amortization is calculated over the estimated service life according to the straight-line method between 5 and 10 years.

Workplace layout

Workplace layout is amortized according to the straight-line method over 6, 10 and 25 years.

LONG-TERM DEBT

The bonds issued with irregular coupons are recorded at face value, increased annually by capitalizing the interest charge at the effective rate, according to the compound interest method.

DEFERRED INCOME

Deferred contributions

Deferred contributions comprise the excess of the fair value of buildings over their cost when the consideration is minimal or zero and of contributions from organizations to fund construction projects. They are gradually transferred to results using the same amortization method as for the buildings in question.

Contributions for the acquisition of immovables received in the form of subsidies are transferred to results using the same amortization as the immovables they refer to.

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2004

(in thousands of dollars)

2. MAIN ACCOUNTING POLICIES (cont'd)**DEFERRED INCOME (cont'd)****Deferred contributions (cont'd)**

Organizations' contributions for property are recorded as surplus contributions. When conditions are attached to them, they are recorded as deferred contributions. They are transferred to surplus contributions once the conditions have been met.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses guaranteed interest rate contracts to manage the risks resulting from interest rate fluctuations on its short-term debt. Since they are only used for coverage, the book values of these financial instruments are not adjusted according to their current market value. All amounts receivable or payable subsequent to forward rate agreements are recorded by adjusting interest payable on an accrual basis for the duration the debt is covered.

3. RENTAL INCOME – HEALTH NETWORK

The rental income comes from 15-year leases signed as of April 1, 2000 with hospital centres (CH), local community service centres (CLSC), extended care hospital centres (CHSLD) and other health network organizations occupying the Corporation's buildings. This income is established annually based on the Corporation's rate-setting policy.

4. RENTAL INCOME – OTHERS – NET

	2004	2003
Rental income	4 304	3 808
Charges		
Operating expenses	1 667	1 739
Interest	290	220
Conservation work	330	751
Amortization of buildings	323	285
Amortization of workplace layout	241	81
	2 851	3 076
Less: amounts attributed to projects under study	47	247
	2 804	2 829
	1 500	979

5. GOVERNMENT OF CANADA SUBSIDY

Under section 95 of the National Housing Act (R.S.C., c. N-11), the Corporation is eligible for financial assistance from the Government of Canada to help pay the cost of public housing projects. To date, 23 projects have been declared eligible.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

6. FINANCIAL EXPENSES – NET

	2004	2003
Interest on long-term debt		
Bonds	24 592	26 801
Notes	111 772	120 086
Other debts	8 997	9 236
Amortization of discounts, premiums and issuing for long-term debts	350	358
Other financial expenses	20	298
	<u>145 731</u>	<u>156 779</u>
Less:		
Interest income from an Amortization Fund related to the Corporation's immoveables managed by the Ministère des Finances	<u>2 235</u>	<u>2 218</u>
	<u>143 496</u>	<u>154 561</u>
Interest on short-term borrowings		
Interest	53 057	43 451
Less:		
Interest posted to immoveables under construction owned by the Corporation and to projects under study	10 656	7 618
Interest income	<u>203</u>	<u>2</u>
	<u>42 198</u>	<u>35 831</u>
	<u>185 694</u>	<u>190 392</u>

The interest charges on borrowings contracted from related enterprises totalled \$114.9 M (2003: \$123.3 M) for long-term borrowings and \$15.9 M (2003: \$18.6 M) for short-term borrowings.

7. AMORTIZATION

	2004	2003
REAL ESTATE		
Buildings operating	16 994	15 103
Rented furniture and equipment	3 100	2 961
OTHER ASSETS		
Deferred expenses – conservation	<u>1 473</u>	<u>475</u>
	<u>21 567</u>	<u>18 539</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2004

(in thousands of dollars)

8. GENERAL AND ADMINISTRATIVE CHARGES

	2004	2003
Salaries and fringe benefits	7 737	7 176
Cost of offices occupied by the Corporation	746	466
Professional services	264	416
Mail, courier services, communications and marketing	146	161
Computers	224	266
Administrative and office expenses	216	219
Other charges	345	344
Amortization of furniture and equipment and computer system development expenses	258	225
Bank of vacation time and sick leave taken over in the transfer of employees and their fringe benefits from the Ministère de la Santé et des Services sociaux	79	350
	10 015	9 623
Less:		
Administrative expenses attributed to real property, projects under study and other assets	2 909	3 387
Direct costs related to consulting costs and the building information system	393	554
	6 713	5 682

9. CLIENT REBATE

Due to the surpluses resulting in 2003-2004 from the application of its rate policy, the Corporation decided to give its health and social services clientele a rebate. This rebate equals 10% of the interest charge for 2003-2004 on accounts receivable – projects mandated and on loans bearing interest at the prime rate -1%.

10. ACCOUNTS RECEIVABLE

	2004	2003
Amount receivable following transfer of a project under study including interest at the prime rate less 1% (Note 27)	19 507	
Local health and social services networks development agencies	123	632
Gouvernement du Québec subsidies receivable		54
Others	5 897	2 576
	25 527	3 262

11. RENT RECEIVABLE

At March 31, 2000, the Corporation posted a subsidy receivable from the Ministère de la Santé et des Services sociaux for interest accrued but not payable related to long-term borrowings recorded in its financial statements. Since the Corporation no longer receives a subsidy from the Ministère de la Santé et des Services sociaux, this amount was converted, with the Department's approval, to "Rent receivable". This rent receivable will be repaid to the Corporation by the establishments according to a predetermined schedule of payments.

CORPORATION D'HÉBERGEMENT DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2004

(in thousands of dollars)

12. LOANS

	2004	2003
Local health and social services networks development agencies (*)	890 553	1 232 566
Health network establishments (**)	840 106	534 206
Daycare centres (***)	107 962	35 482
Other	501	
	<u>1 839 122</u>	<u>1 802 254</u>

* These loans include an amount of \$735.6 M (2003: \$1 061.9 M) for loan agreements maturing in 2023 for which there is long-term financing. Loan payments can be cashed in on September 30 and March 31 each year and come with a moveable hypothec guarantee. The amounts received correspond to the capital and interest instalments payable on the long-term debt whose interest rates vary between 5.3% and 12.5% (2003: 5.25% and 12.50%) for maturity dates between 2005 and 2023. These loans also include a short-term amount of \$155.0 M (2003: \$170.7 M) which consists of credit margins currently bearing interest at the prime rate minus 1%.

** These loans include an amount of \$831.5 M (2003: \$528.6 M) which consists of credit margins whose rate is currently equivalent to the prime rate minus 1%. These loans include an amount of \$8.6 M (2003: \$5.6 M) contemplated in long-term loan agreements maturing between 2004 and 2007 and bearing interest at the prime rate minus 1%.

*** These short-term loans currently bear interest at the prime rate minus 0.5%

As of July 1, 2004, the Corporation intends to endorse the Ministère de la Santé et des Services sociaux's new policy putting a ceiling on the cost of short-term financing for organizations in the health and social services network for one-month bank acceptances +0.30%.

13. ACCOUNTS RECEIVABLE – MANDATED PROJECTS

"Accounts receivable – mandated projects" includes all direct costs plus administrative expenses and interest, calculated at the prime rate less 1%, related to construction projects entrusted to the Corporation by the health network. These accounts receivable were repaid on project completion by cashing the financing contracted by the establishment.

As of July 1, 2004, the Corporation intends to endorse the Ministère de la Santé et des Services sociaux's new policy putting a ceiling on the cost of short-term financing for organizations in the health and social services network for one-month bank acceptances +0.30%.

14. REAL ESTATE

	2004		2003
	Cost	Accumulated depreciation	Net value
Buildings operating			
Land	94 864		94 864
Buildings	1 540 433	181 446	1 358 987
			<u>1 171 756</u>
Amounts carried forward	<u>1 635 297</u>	<u>181 446</u>	<u>1 453 851</u>
			<u>1 230 718</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

14. REAL ESTATE (cont'd)

	2004		2003
	Cost	Accumulated depreciation	Net value
Amounts brought forward	1 635 297	181 446	1 453 851
Buildings under construction			
Land	16 980		16 980
Buildings	251 489		251 489
	268 469		268 469
Rented furniture and equipment	40 576	15 070	25 506
	<u>1 944 342</u>	<u>196 516</u>	<u>1 747 826</u>

COSTS CAPITALIZED TO REAL ESTATE

During the year, the following costs were capitalized to real estate.

	2004	2003
Interest on short-term borrowings	8 291	5 218
General and administrative charges	2 583	2 983

15. BUILDINGS INTENDED FOR SALE

	2004	2003
	Cost	Cost or net value
Land	441	1 272
Buildings		21
	<u>441</u>	<u>1 293</u>

16. OTHER ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net value
Issuing, discount and premium expenses linked to the long-term debt	7 288	1 549	5 739
Deferred expenses – conservation	23 618	2 069	21 549
Computer system development expenses	783	359	424
Furniture and equipment	961	321	640
Workplace layout	2 094	97	1 997
Deferred net losses – derivative financial instruments			
Deferred expenses – other	185		185
	<u>34 929</u>	<u>4 395</u>	<u>30 534</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

17. INTEREST ACCRUED

	2004	2003
Related parties	41 052	48 275
Others	24 635	11 368
	<u>65 687</u>	<u>59 643</u>

18. SHORT-TERM BORROWINGS

	2004	2003
Discount notes		
Related parties (2003: 2.87% to 3.13%)		244 030
Others, 2.10% to 3.67% (2003: 2.86% to 3.72%)	1 716 785	832 997
Notes at par value		
Financing Fund of the Gouvernement du Québec, 2.15% to 3.67% (2003: 2.89% to 3.08%)	200 000	322 250
Gouvernement du Québec, (2003: 3.05%)		76 000
	<u>1 916 785</u>	<u>1 475 277</u>

As at March 31, 2004, the Corporation had a credit margin of \$10 M. It is renewable annually on November 30. The amounts used bear interest at the prime rate.

19. LONG-TERM DEBT

	2004	2003
Bonds		
- 5.4% to 5.9%, maturing from 2005 to 2006	11 690	35 145
- 6.15% to 10%, maturing from 2005 to 2006	47 852	47 852
- 10.10% to 12.75%, maturing from 2005 to 2019	89 377	89 377
- Interest-free for certain period and bearing interest for the remainder from 68% to 156% (effective rates of 10.46% to 10.51%), maturing between 2013 and 2015 including capitalizable interest	94 946	85 931
Borrowing on notes from the Financing Fund of the Gouvernement du Québec at variable rates:		
- 5.28% to 6.52%, maturing from 2006 to 2037	991 861	890 522
- 6.77% to 7.75%, maturing from 2006 to 2023	260 475	475 037
- 8.00% to 9.75%, maturing from 2005 to 2021	233 644	316 023
Borrowing on notes from Financement-Québec at variable rates:		
- 5.56% to 6.40%, maturing in 2006 and 2016	1 533	1 559
- 7.75% to 8.32%, maturing from 2006 to 2019	2 525	2 717
- 9.38%, maturing in 2018	587	6 621
Amounts carried forward	<u>1 734 490</u>	<u>1 950 784</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

19. LONG-TERM DEBT (cont'd)

	2004	2003
Amounts brought forward	1 734 490	1 950 784
Borrowing from the Canada Mortgage and Housing Corporation at variable rates:		
- 5.88% to 6.25%, maturing in 2018 and 2019	819	854
- 8%, maturing from 2029 to 2032	56 031	56 613
Real estate mortgages from the Société d'habitation du Québec guaranteed by immovables of a book value of \$119.3 M at variable rates:		
- 6.88%, maturing from 2020 to 2023	16 081	16 209
- 7.5% to 7.88%, maturing from 2021 to 2029	4 875	4 972
- 8% maturing from 2028 to 2030	15 135	15 319
Balance of sales prices from the Commission de la santé et de la sécurité du travail, at 7.50%, maturing in 2007	3 783	4 872
Other real estates mortgages guaranteed by immovables of a book value of \$1.0 M, at variable rates:		
- 10.66% maturing in 2005	11 144	12 068
- 11.25% maturing in 2005	85	185
	1 842 443	2 061 876
Less:		
Gouvernement du Québec receivables linked to the long-term debt *	83 301	80 687
	1 759 142	1 981 189

* Under its statute, the Corporation deposits amounts slated for the repayment of a portion of its qualifying debts in the amortization fund for borrowings by Québec health and social service agencies managed by the Ministère des Finances.

All long-term debts bear interest at fixed rates.

Payments of principal on the long-term debt for the next five fiscal years are as follows:

	Financement Québec	Financing Fund of the Gouvernement du Québec	Société d'habitation du Québec	Other non related parties	Payments (net contribu- tions) at (from) the Amortization Fund	Total instalments
2005	337	135 334	807	74 206	(17 487)	193 197
2006	2 544	234 355	866	23 329	(1 354)	259 740
2007	146	55 560	930	7 572	3 807	68 015
2008	146	227 875	999	20 821	(6 069)	243 772
2009	313	42 547	1 073	56 399	(36 718)	63 614

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2004

(in thousands of dollars)

19. LONG-TERM DEBT (cont'd)

Movable hypothecs bind the departmental subsidy paid to health sector players in the Corporation's favour. The latter could henceforth be transferred to the Corporation's non-related creditors to guarantee their loans.

20. DEFERRED INCOME

	2004		2003
	Cost	Accumulated depreciation	Net value
Deferred contributions	302 289	182 656	119 633
Deferred net gains – derivative financial instruments	1 036		1 036
	<u>303 325</u>	<u>182 656</u>	<u>120 669</u>
			<u>120 348</u>

Of the net value of deferred contributions of \$119.6 M (2003: \$120.3 M), \$25.5 M (2003: \$40.7 M) represents transfer subsidies paid by shareholders before April 1, 2000, as of which date the Corporation must finance its own activities. These contributions will be amortized over the next 2 fiscal years. Use of the amounts freed up by the amortization of these contributions, whose net value at April 1, 2000 was \$83.1 M, must be pre-approved by the shareholders. During the fiscal year, organizations' contributions for financing construction projects totalled \$10.2 M (2003: \$5.7 M).

21. CAPITAL STOCKS

Corporation d'hébergement du Québec stocks are held by the Ministère des Finances.

	2004	2003
Authorized 5 000 000 common shares of a face value of \$100 each		
Issued and paid: 100 000 shares	<u>10 000</u>	<u>10 000</u>

22. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Corporation is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Corporation did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

23. FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

Derivative financial instruments

To protect against interest-rate risks related to short-term financing activities, the Corporation signed interest rate capping agreements, all of which run for less than one year.

	2004		2003	
	Fair value	Contracted capital	Fair value	Contracted capital
Purchases	231	635 000	(36)	215 000

A short-term investment in the amount of \$2.5 M (2003: \$0.8 M) is pledged against certain agreements. This investment is presented at cost, bears interest at a rate of 2.02% and matures in June 2004.

Long-term debt

At March 31, 2004, the fair value of the long-term debt of \$1 842.4 M (2003: \$2 061.9M) was \$2 080.0 M (2003: \$2 259.3 M), given the capitalization of cash flows at market prices for securities of similar nature in terms of maturity date and interest rate. Of the above-mentioned fair value, an amount of \$92.9 M (2003: \$94.0 M) was not assessed and was considered at book value, given the lack of a market for these long-term debts, whose rates are guaranteed for periods ranging from 14 to 29 years.

Gouvernement du Québec amounts receivable linked to the long-term debt

At March 31, 2004, the fair value of \$83.3 M (2003: \$80.7 M), which represented amounts receivable from the Québec government linked to the long-term debt, was \$112.0 M (2003: \$106.3 M), given the market value of these investments of the related Amortization Fund.

Short-term borrowings

The fair value of short-term borrowings at March 31, 2004, in the amount of \$1 916.8 M (2003: \$1 475.3 M) corresponds to the book value of these securities, given their pending renewal.

Loans

At March 31, 2004, the fair value of loans of \$1 839.1 M (2003: \$1 802.3 M) was 1 986.2 M\$ (2003: \$1 937.1 M). An amount of \$882.7 M (2003: \$1 196.8 M) represented the fair value of loans equivalent to that of the long-term debt attributable to these debts, given that the amounts receivable correspond to capital and interest payments payable on these same debts. An amount of \$1 103.5 M (2003: \$740.3 M) was not assessed and was considered at book value, given the lack of a market for this type of loan. These loans are at varying rates for terms that are generally undetermined.

Rental payments receivable

The fair value of rental payments receivable cannot be estimated, given the lack of a market for this type of debt. These rental payments receivable are spread over a remaining period of 29 years and do not bear interest.

Other assets and liabilities

The fair value of short-term investments, accounts receivable, debts receivable, mandated projects, outstanding cheques less cash, accounts payable and withholdings on contracts payable and interest earned equals their book value, given that they fall due within the near future or that their terms are undetermined.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

23. FINANCIAL INSTRUMENTS (cont'd)

INTEREST-RATE AND CREDIT RISK

Exposure to interest-rate risk in relation to the long-term debt is very limited since all interest costs are reinvoiced via health network rental leases and through loan agreements. The credit risk is very limited since the Ministère de la Santé et des Services sociaux acknowledged, in its expenditure budgets, the financial commitments of health establishments where leases and loans are concerned.

24. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

At March 31, 2004, the balance of uncompleted contracts signed by the Corporation targeted by contractual agreement totalled \$87.5 M (2003: \$161.1 M), including \$29.3 M (2003: \$121.5 M) for projects under way and \$57.2 M (2003: \$36.8 M) for projects under study.

CREDIT INSTRUMENTS

The credit instruments used to meet the Corporation's clients' financing needs represent the maximum amount of additional credit that the Corporation may have to grant if commitment are used in their entirety.

The total amount of credit instruments does not necessarily represent the needs for future cash assets since these instruments may expire or be terminated without having given rise to disbursements. The table below shows the contractual amounts not used.

Loans

Local health and social services networks development agencies	175 617
Health network establishments	4 575
Daycare centres	<u>65 846</u>
	<u>246 038</u>

CONTINGENCIES

Insurance claim

A \$35 M claim was sent to insurers for a fire at the Hôtel-Dieu de Roberval in December 1998. The insurer had paid \$6.1 M of this amount at March 31, 2004. When the financial statements were being prepared the Corporation was not in a position to assess the additional amount that might possibly result from this claim.

Financing of deductibles on civil and professional liability insurance policies of institutions covered by the insurance plan of the Association des hôpitaux du Québec

Under section 472.1 of the Act respecting health services and social services (R.S.Q., c. S-4.2), the Corporation d'hébergement du Québec may be required to guarantee the discharge of any obligation of associations recognized by the MSSS under section 267 of the Act in relation to the management of the deductible under an insurance contract negotiated or entered into by the association on behalf of its members. It may also advance to the association any sum deemed necessary for the management of said deductible.

The Minister may, on the conditions determined by the Government, reimburse the Corporation d'hébergement du Québec any sum it may be required to pay in relation to this guarantee.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2004

(in thousands of dollars)

24. COMMITMENTS AND CONTINGENCIES (cont'd)

CONTINGENCIES (cont'd)

Lawsuits and claims

When these financial statements were being prepared, claims and lawsuits existed against the Corporation d'hébergement du Québec, for \$40 M. Of this amount, \$22 M is related to a notice of expropriation with a view to acquire a property accompanied by an offer of compensation in the amount of \$0.9 M contested by the expropriated parties. On October 7, 2002, the Tribunal administratif du Québec (TAQ) set compensation at a \$6.9 M. The Corporation appealed this ruling before the Court of Québec, which authorized the appeal and suspended execution of the TAQ ruling. However, on the basis of the information available, management feels that it is unlikely that any major liability need be considered regarding these claims and lawsuits in relation to the Corporation's financial situation.

Where applicable, payments by the Corporation will be recorded to charges for the fiscal year, either capitalized to fixed assets depending on the nature of the claim, or reduced by the provisions already on the books, if need be.

25. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Corporation participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP), Civil Service Superannuation Plan (CSSP) or Pension Plan for Senior Officials (PPSO) administered by a Gouvernement du Québec agency. These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The liability of the Commission towards these government plans is restricted to its contributions as an employer. The Corporation's contributions charged to the year-end statement amount to \$0.2 M (2003: \$0.2 M).

Provision for sick leave and vacation time

	2004			2003
	Vacation time	Sick leave	Total	Total
Opening balance	734	1 278	2 012	1 440
Amounts transferred *	4	75	79	350
Charge for the year	613	163	776	694
Subtotal	1 351	1 516	2 867	2 484
Less:				
Benefits paid during the year	631	142	773	472
Closing balance	720	1 374	2 094	2 012

The balance of this provision is included under accounts receivable and withheld on contracts payable.

* The amounts transferred represent vacation time and sick leave payable following the transfer of Gouvernement du Québec employees to the Corporation.

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2004

(in thousands of dollars)

26. CASH FLOWS

Cash and cash equivalents appearing in the cash flow statement include the following amounts recorded in the balance sheet:

	2004	2003
Short-term investments	2 488	795
Outstanding cheques less cash	<u>(5 462)</u>	<u>(2 098)</u>
Cash and cash equivalents	<u><u>(2 974)</u></u>	<u><u>(1 303)</u></u>

Interest paid during the fiscal year by the Corporation totalled \$183.2 M (2003: \$194.9 M). Interest received during the fiscal year by the Corporation totalled \$91.5 M (2003: \$109.3 M).

During the fiscal year, real property was acquired for a total cost of \$183.7 M (2003: \$183.6 M). Of this amount, \$0.6 M (2003: \$4.5 M) was acquired by taking over mortgages and \$10.8 M (2003: \$7.8 M) by recording the surplus of the fair value of property acquired over their cost when consideration was minimal or nothing.

27. LIQUIDATION OF SUBSIDIARIES

On July 21, 2003, following the announcement by the Minister of Health and Social Services of the Gouvernement du Québec, to the Corporation's two subsidiaries, i.e. Société d'implantation du Centre hospitalier de l'Université de Montréal (SICHUM) and Société d'implantation du Centre universitaire de santé McGill (SICUSM), putting an end to their work to relocate the McGill University Health Centre (MUHC) and set up the Centre hospitalier de l'Université de Montréal (CHUM), the Corporation finished transferring the activities of its two subsidiaries into an exclusive ownership. Consequently, the results of the fiscal year ending March 31, 2004 were consolidated for the period April 1 - July 21, 2003.

Following the Minister's decision, the two subsidiaries were liquidated into the parent company and the following assets and liabilities were transferred to the Corporation:

Société d'implantation du Centre universitaire de santé McGill

Assets transferred to the Corporation	
Account receivable – sales taxes	412
Account receivable – parent company	<u>773</u>
	1 185
Liabilities transferred to the Corporation	
Account payable – McGill University Health Centre	<u>1 185</u>
Net assets of the Corporation	<u><u> </u></u>

Société d'implantation du Centre hospitalier de l'Université de Montréal

Assets transferred to the Corporation	
Cash	17
Accounts receivable	22
Advance to parent company	283
Fixed assets	<u>190</u>
	512
Liabilities transferred to the Corporation	
Accounts payable	<u>512</u>
Net assets of the Corporation	<u><u> </u></u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2004

(in thousands of dollars)

27. LIQUIDATION OF SUBSIDIARIES (cont'd)

On November 20, 2003, the Corporation transferred its rights to studies and work already completed for the project of setting up the Centre hospitalier de l'Université de Montréal, including all rights and obligations contracted with third parties, for a consideration of \$28.4M. Further, on December 17, 2003, the Corporation also transferred its rights to the studies and work already completed for the McGill University Health Centre relocation project, including all rights and obligations contracted with third parties for a consideration of \$19.2 M. The Corporation's financial statements, as at March 31, 2004, present an amount receivable in this regard. The Corporation recorded no gain or loss on these transfers given that the consideration equals the amounts capitalized in the project as at the transfer date.

28. COMPARATIVE FIGURES

Certain figures for the previous fiscal year were reclassified to comply with the presentation adopted for fiscal 2004.

**MANAGEMENT'S RESPONSIBILITY
RELATED TO PRESENTING FINANCIAL INFORMATION**

The responsibility for the financial statements of the Corporation d'hébergement du Québec and all information contained therein, which has been approved by the board of directors, falls to management.

The financial statements were drawn up by management in keeping with the accounting principles generally recognized in Canada and, where applicable, contain amounts based on management's best estimates and judgements. The financial information contained in the rest of the annual activity report corresponds to the information provided in the financial statements.

Corporation management prepared and oversaw the maintenance of a system of internal accounting controls to ensure the integrity and objectivity of the data presented in the financial statements. Management feels that this system provides reasonable insurance that the financial information is reliable, that it constitutes a relevant basis for preparation of the financial statements and that the Corporation's assets are properly recorded and well protected.

The Corporation recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors carried out its responsibility for the financial statements mainly through the auditing committee, which is composed only of external administrators. The committee examines the Corporation's annual financial statements and recommends that the board approve them. The Corporation's auditor has unimpeded, complete access to the auditing committee, in the presence of management or not.

The present financial statements were audited by the Corporation's auditor and the Auditor General, whose report appears below.

Michel L. Lesage
President and Chief Executive Officer

Sainte-Foy, May 17, 2004

CORPORATION D'HÉBERGEMENT DU QUÉBEC**AUDITOR'S REPORT**

To the Québec Minister of Finance

I have audited the balance sheet of the Corporation d'hébergement du Québec as at March 31, 2004 and the statements of results, retained earnings, contributed surplus and cash flows for the year then ended. These financial statements are the responsibility of Corporation management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 17, 2004

CORPORATION D'URGENCES-SANTÉ
(R.S.Q., c. S-5)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Subsidies (Note 3)	\$53 254 754	\$50 287 306
Ambulance services (Note 4)	27 259 075	27 669 284
Miscellaneous	<u>334 983</u>	<u>197 951</u>
	80 848 812	78 154 541
EXPENDITURE (Note 5)	<u>80 569 991</u>	<u>78 957 907</u>
EXCESS REVENUE OVER EXPENDITURE	278 821	(803 366)
SURPLUS, BEGINNING OF YEAR	<u>1 247 831</u>	<u>2 051 197</u>
SURPLUS, END OF YEAR	<u>\$1 526 652</u>	<u>\$1 247 831</u>

CORPORATION D'URGENTES-SANTÉBALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$6 019 055	\$4 563 565
Accounts receivable (Note 7)	7 457 999	6 087 556
Prepaid expenses	<u>343 335</u>	<u>784 575</u>
	13 820 389	11 435 696
Fixed assets (Note 9)	<u>7 533 943</u>	<u>12 235 061</u>
	<u><u>\$21 354 332</u></u>	<u><u>\$23 670 757</u></u>
LIABILITIES		
Current liabilities		
Owed to the Provincial Activities Fund	\$460 943	\$665 231
Accounts payable and accruals	14 268 256	13 347 535
Deferred subsidies	87 000	
Instalments on commitments under capital leases (Note 11)	<u>2 818 691</u>	<u>3 811 197</u>
	17 634 890	17 823 963
Commitments under capital leases (Note 11)	<u>2 192 790</u>	<u>4 598 963</u>
	19 827 680	22 422 926
SURPLUS	<u>1 526 652</u>	<u>1 247 831</u>
	<u><u>\$21 354 332</u></u>	<u><u>\$23 670 757</u></u>
COMMITMENTS (Note 14)		

On behalf of the Board of Directors,
 Jacques Cotton
 Pierre Deschamps

CORPORATION D'URGENTES-SANTÉ**CASH FLOWS**

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
CASH FLOW ORIGINATING FROM (APPROPRIATED TO) (Note 15)		
OPERATING ACTIVITIES		
Excess revenue over expenditure	\$278 821	\$(803 366)
Non-cash items charged to operating results:		
Depreciation of fixed assets	5 758 138	6 107 139
Loss (Gain) on disposal of fixed assets	<u>26 121</u>	<u>(131 228)</u>
	 6 063 080	 5 172 545
Changes in assets and liabilities related to operations		
Current assets, (increase) decrease		
Accounts receivable	(1 370 443)	760 671
Prepaid expenses	441 240	1 058 995
Current liabilities, increase (decrease)		
Owed to the Provincial Activities Fund	(204 288)	24 545
Accounts payable and accruals	584 641	760 310
Deferred subsidies	<u>87 000</u>	<u>(37 379)</u>
	 (461 850)	 2 567 142
	<u>5 601 230</u>	<u>7 739 687</u>
FINANCING ACTIVITIES		
Reimbursement of the debt for capital lease contracts	<u>(3 802 427)</u>	<u>(4 093 647)</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(346 507)	(117 697)
Proceeds from disposal of fixed assets	<u>3 194</u>	<u>183 795</u>
	<u>(343 313)</u>	<u>66 098</u>
INCREASE IN CASH ON HAND	1 455 490	3 712 138
CASH ON HAND, BEGINNING OF YEAR	<u>4 563 565</u>	<u>851 427</u>
CASH ON HAND, END OF YEAR	<u><u>\$6 019 055</u></u>	<u><u>\$4 563 565</u></u>

CORPORATION D'URGENTES-SANTÉ

PROVINCIAL ACTIVITIES FUND

CHANGES IN FUND BALANCE
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPENING BALANCE	<u>\$1 405 218</u>	<u>\$720 686</u>
Increase		
Gouvernement du Québec subsidy	615 821	1 490 808
Interest	<u>22 363</u>	<u>17 625</u>
	<u>638 184</u>	<u>1 508 433</u>
Decrease		
Contribution to the scientific convention of the Association des médecins d'urgences du Québec	5 000	30 000
Fees	24 900	
Call prioritization system	291 428	207 462
Forms and agreements		13 049
Training	269 433	143 026
Purchase of individual protective clothing	923 847	377 259
Uniforms and test individual protective clothing	10 501	16 139
Specialized medical furnishings	28 948	
Purchase of crests	25 134	22 521
Legal fees	<u>3 268</u>	<u>14 445</u>
	<u>1 582 459</u>	<u>823 901</u>
CLOSING BALANCE	<u><u>\$460 943</u></u>	<u><u>\$1 405 218</u></u>

CORPORATION D'URGENCES-SANTÉ

PROVINCIAL ACTIVITIES FUND

BALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Amount receivable from the Ministère de la Santé et des Services sociaux		\$739 987
Owed by the Corporation, bearing interest at prime rate less 2%, without repayment terms	<u>\$460 943</u>	<u>665 231</u>
	<u><u>\$460 943</u></u>	<u><u>\$1 405 218</u></u>
 FUND BALANCE	 <u><u>\$460 943</u></u>	 <u><u>\$1 405 218</u></u>

On behalf of the Board of Directors,
Jacques Cotton
Pierre Deschamps

CORPORATION D'URGENCES-SANTÉ

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

The Corporation d'urgences-santé is a non-profit corporation established under the Act respecting health services and social services (R.S.Q., c. S-5). On its territory, it performs the duties attributed to a regional board by the Act respecting pre-hospital emergency services (S.Q., 2002, c. 69), notably planning, organizing and coordinating the organization of pre-hospital emergency services, including the implementation of a front-line service. It also operates a health communications centre and an ambulance service.

In accordance with a Ministère de la Santé et des Services sociaux directive, the surplus can be used only for the purposes stipulated in the legislation and cannot be used without the Department's prior authorization.

Provincial Activities Fund

The Ministère de la Santé et des Services Sociaux (MSSS) mandated the Corporation to acquire safety equipment and uniforms for all emergency medical technicians in the Province of Québec. As trustee for the Provincial Activities Fund, the Corporation must ensure equipment distribution, exchanges and replacement. Subsidies granted by the Department to the Fund cover purchase costs for individual protective clothing, as well as related direct costs. At the Department's request, the Fund also assumes specific expenses related to all pre-hospitalization services.

Operations under these mandates are accounted for separately from the Corporation's operations.

2. ACCOUNTING POLICIES

The financial statements of the Corporation were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Fixed assets

Fixed assets are recorded at cost and depreciated on a straight-line basis over the following estimated service lives:

Data processing equipment	3 to 5 years
Furniture and equipment	5 years
Safety equipment	5 years
Leasehold improvements	According to the term of the lease
Automotive equipment	From 36 months to 60 months
Computer-aided dispatch system	5 years

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Corporation lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. REVENUE - SUBSIDIES

	2004	2003
Ministère de la Santé et des Services sociaux		
- operating subsidy	\$34 894 730	\$32 216 416
Société de l'assurance automobile du Québec	18 360 024	18 070 890
	<u>\$53 254 754</u>	<u>\$50 287 306</u>

CORPORATION D'URGENCES-SANTÉ

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

4. REVENUE - AMBULANCE SERVICES

	2004	2003
Health and social services institutions	\$9 542 062	\$9 601 353
Ministère de la Santé et des Services sociaux		
- subsidy for institutions	5 645 044	5 640 333
	<u>15 187 106</u>	<u>15 241 686</u>
Société de l'assurance automobile du Québec	1 067 015	1 090 712
Ministère de l'Emploi, de la Solidarité sociale		
et de la Famille	4 264 467	4 484 990
Individuals	6 396 109	6 511 285
Other	344 378	340 611
	<u>\$27 259 075</u>	<u>\$27 669 284</u>

5. EXPENDITURE BY RESPONSIBILITY CENTRE

	Training	General administration	Data processing	Pre-hospital emergency services
Salaries and wages	\$1 181 077	\$3 126 892	\$1 335 778	\$28 095 792
Fringe benefits ^a	1 019 348	924 049	211 925	6 520 516
Payroll taxes ^b	508 729	695 869	184 830	9 152 625
Medical supplies and medication	13 264	750		1 886 764
Travelling expenses	19 156	100 887	1 468	80 103
Services purchased (Note 6)	312 810	928 941	403 901	830 657
Communications	1 036	230 665	1 281	67 210
Building rental	1 972	33 910	1 439	1 505 307
Equipment rental		7 672		10 133
Capital leases:				
Interest on bonds	13 015	1 102	55 316	246 168
Depreciation of fixed assets	30 474	71 388	640 714	4 057 983
Loss (Gain) on disposal of fixed assets			12 182	10 009
Uniform purchases and rental	1 301	1 856		515 116
Automotive equipment expenses	34 020			3 024 297
Office supplies	21 644	62 489	43 119	134 768
Doubtful accounts and collection charges		27 134		1 347 122
Doubtful accounts recovered				(60 830)
Insurance		97 660		
Interest and bank charges	38	2 938	4 447	1 237
Other	46 943	81 790	18 549	72 952
Expenditure recovery	(65 000)		(45 998)	(16 298)
	<u>\$3 139 827</u>	<u>\$6 395 992</u>	<u>\$2 868 951</u>	<u>\$57 481 631</u>

a Leave benefits under the collective agreement, including annual holidays, statutory holidays, sick leave and severance pay.

b Financial charges related to the employer contribution under social legislation and contract obligations.

Commu- nications	Quality control and medical inspection	Specialized interventions	Operation of facilities	Total 2004	Total 2003
\$3 099 768	\$370 151	\$355 745		\$37 565 203	\$36 967 035
1 038 654	64 200	116 115		9 894 807	9 872 445
606 806	64 422	124 659		11 337 940	10 834 866
304		34 422		1 935 504	1 721 753
1 642	5 380	31		208 667	190 460
1 118 110	56 816	87 475	\$34 768	3 773 478	3 205 232
673 190	1 038			974 420	951 519
			1 449 006	2 991 634	2 912 951
265 305				283 110	311 973
36 078				351 679	565 053
932 706		9 457	15 416	5 758 138	6 107 139
3 722			208	26 121	(131 228)
6 758	7 262	882		533 175	595 947
	106	62 437		3 120 860	3 157 562
18 163	4 594			284 777	263 772
				1 374 256	1 358 676
				(60 830)	(83 214)
				97 660	94 868
79	4			8 743	32 686
36 648	7 218	44	301	264 445	235 273
(26 500)				(153 796)	(206 861)
<u>\$7 811 433</u>	<u>\$581 191</u>	<u>\$791 267</u>	<u>\$1 499 699</u>	<u>\$80 569 991</u>	<u>\$78 957 907</u>

CORPORATION D'URGENCES-SANTÉNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**6. SERVICES PURCHASED**

	2004	2003
Electronic data processing	\$113 452	\$100 641
Laundry	213 484	181 969
Maintenance and repairs - premises and equipment	1 265 221	930 766
Maintenance and repairs - computer-aided dispatch system	520 701	630 763
Computer software updates	366 337	184 533
Training	270 533	58 395
Professional fees	676 736	721 752
Business project	91 681	136 810
Pre-hospital research project	50 000	
Process review	163 521	225 626
Other	41 812	33 977
	<u>\$3 773 478</u>	<u>\$3 205 232</u>

7. ACCOUNTS RECEIVABLE

	2004	2003
Ambulance Service Beneficiaries		
Health and social services institutions	\$2 390 469	\$2 102 540
Société de l'assurance automobile du Québec	75 910	75 419
Ministère de l'Emploi, de la Solidarité sociale et de la Famille	344 119	260 099
Individuals	2 787 297	3 132 191
Other	27 504	29 392
	<u>5 625 299</u>	<u>5 599 641</u>
Ministère de la Santé et des Services sociaux		
- subsidies	2 347 738	1 529 765
Québec sales tax receivable	219 237	214 199
Other	1 000 303	808 084
	<u>9 192 577</u>	<u>8 151 689</u>
Allowance for doubtful accounts		
Individuals	(1 734 578)	(2 064 133)
	<u>\$7 457 999</u>	<u>\$6 087 556</u>

8. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value, given that they mature in the near future.

CORPORATION D'URGENCES-SANTÉNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**9. FIXED ASSETS**

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Data processing equipment	\$2 097 848	\$1 360 627	\$737 221	\$1 225 633
Furniture and equipment	4 773 493	3 287 569	1 485 924	1 493 310
Automotive equipment	4 563 969	3 472 680	1 091 289	2 016 337
Safety equipment	143 064	143 064		
Leasehold improvements	343 592	343 592		12 719
Computer-aided dispatch system	5 975 795	5 970 149	5 646	342 936
	<u>17 897 761</u>	<u>14 577 681</u>	<u>3 320 080</u>	<u>5 090 935</u>
Fixed assets held under capital leases				
Automotive equipment	8 880 108	5 592 823	3 287 285	5 156 469
Equipment	2 746 575	1 819 997	926 578	1 431 276
Computer-aided dispatch system				556 381
	<u>11 626 683</u>	<u>7 412 820</u>	<u>4 213 863</u>	<u>7 144 126</u>
	<u>\$29 524 444</u>	<u>\$21 990 501</u>	<u>\$7 533 943</u>	<u>\$12 235 061</u>

During the fiscal year, fixed assets were acquired for a total cost of \$1 086 335 (2003: \$484 893), including fixed assets in the amount of \$403 748 (2003: \$367 196) acquired through capital leases. A sum of \$346 507 (2003: \$117 697) in cash was paid for the purchase of fixed assets. An equipment purchase in the amount \$336 080 is due on March 31, 2004.

10. AUTHORIZED CREDIT LINE

The Ministère de la Santé et des Services sociaux authorizes the Corporation to borrow in keeping with its financing needs. As at March 31, 2004, there was no authorized borrowing (2003: \$8 028 000). Any Corporation borrowing contracted with its financial institution in the form of a credit line bears interest at the prime rate.

11. COMMITMENTS UNDER CAPITAL LEASES

	2004	2003
Commitments under capital leases:		
- rates varying from 3.53% to 12.58%, maturing until 2008	\$5 011 481	\$8 410 160
Instalments due within one year	<u>2 818 691</u>	<u>3 811 197</u>
	<u>\$2 192 790</u>	<u>\$4 598 963</u>

CORPORATION D'URGENCES-SANTÉ

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

11. COMMITMENTS UNDER CAPITAL LEASES (cont'd)

The minimum payments required on commitments under capital leases are as follows:

2005	\$2 999 218
2006	2 000 839
2007	147 535
2008	106 128
Total minimum payments required	<u>5 253 720</u>
Amount of interest included in total minimum payments required	<u>242 239</u>
	<u><u>\$5 011 481</u></u>

The fair value of the obligations resulting from capital lease contracts was not determined due to constraints of time.

12. FUTURE FRINGE BENEFITS**Pensions plans**

With the exception of emergency medical technicians, the staff members of the Corporation participate in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death. The Corporation's contributions charged to the year-end statement amount to \$446 145 (2003: \$435 374).

The Corporation's emergency medical technicians participate in the supplemental pension plan for ambulance technicians in Québec (RRTAQ). This is a defined-contribution plan and does not provide vested benefits for past service. The Corporation's contributions charged to the year-end statement amount to \$1 363 571 (2003: \$1 345 529).

The liability of the Corporation towards these plans is restricted to its contributions as an employer.

Provisions for vacation time, holidays and sick leave

	Vacation time and holidays	Sick leave	Total 2004	Total 2003
Opening balance	\$5 491 340	\$(57 413)	\$5 433 927	\$5 375 038
Charges for the year	7 661 265	1 895 694	9 556 959	9 125 734
Benefits paid during the year	<u>(7 438 965)</u>	<u>(1 915 014)</u>	<u>(9 353 979)</u>	<u>(9 066 845)</u>
Closing balance	<u>\$5 713 640</u>	<u>\$(76 733)</u>	<u>\$5 636 907</u>	<u>\$5 433 927</u>

13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Corporation is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Corporation did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

CORPORATION D'URGENTES-SANTÉNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**14. COMMITMENTS**

The Corporation is committed to long-term contracts for office space and equipment and equipment maintenance expiring on various dates up to June 2012.

Payments for the year ended March 31, 2004, amount to \$3 750 832 (2003: \$4 079 476). The minimum payments for the coming fiscal years are as follows:

2005	\$3 210 666
2006	2 289 244
2007	851 802
2008	765 562
2009	773 570
2010 and thereafter	<u>2 556 942</u>
	<u>\$10 447 786</u>

Provincial Activities Fund

Under a contract signed by the Ministère de la Santé et des Services sociaux, the Provincial Activities Fund will have to pay out a total of US\$1 036 254, ending in 2008, for the implementation of a system of call prioritization to be used throughout Québec. The instalments, converted into Canadian dollars at March 31 2004, are as follows:

2005	\$304 699
2006	383 367
2007	335 299
2008	<u>335 299</u>
	<u>\$1 358 664</u>

15. ADDITIONAL CASH FLOW INFORMATION

	<u>2004</u>	<u>2003</u>
Interest paid	\$361 015	\$597 613
Interest earned	126 762	61 245

CORPORATION D'URGENCES-SANTÉ

MANAGEMENT'S REPORT

The financial statements of the Corporation d'urgences-santé were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Corporation recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors oversees the way in which management performs its financial reporting duties and has approved the financial statements. It is assisted by the audit committee, whose members are not part of management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the Board of Directors.

The Auditor General of Québec has audited the Corporation's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

André Giroux
President and Chief Executive Officer

Jean Girouard
Director, Finance

Montréal, June 4, 2004

CORPORATION D'URGENCES-SANTÉ**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Corporation d'urgences-santé as at March 31, 2004 and the statements of revenue and expenditure, surplus and cash flows for the year then ended. I have also audited the balance sheet of the Provincial Activities Fund, which is administered by the Corporation, as at March 31, 2004, and the statement of changes in fund balance for the year then ended. These financial statements are the responsibility of Corporation management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation and the Provincial Activities Fund as at March 31, 2004 and the results of the operations and cash flows of the Corporation for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 4, 2004

ÉCOLE NATIONALE DE POLICE DU QUÉBEC
(R.S.Q., c. P-13.1)

REVENUE AND EXPENDITURE AND EQUITY
for the year ended June 30, 2003

	2003	2002
REVENUE		
Police force contributions	\$8 397 141	\$8 105 348
Gouvernement du Québec subsidy (Note 3)		
Rent	3 100 000	1 700 000
Other	253 600	
Lodging (Note 4)	2 890 984	2 587 547
Training (Note 4)	4 272 747	3 110 216
Interest	39 531	70 452
Other	52 348	28 995
	<u>19 006 351</u>	<u>15 602 558</u>
EXPENDITURE		
Salaries and fringe benefits (Note 5)	12 254 861	10 867 957
Transportation and communications	589 577	395 243
Professional services	666 871	777 317
Maintenance and repairs	159 558	179 476
Rent	3 221 987	1 516 830
Rental of lodgings and other	157 554	218 677
Material and teaching materials (Note 6)	1 345 231	1 062 726
Furniture and equipment	44 909	33 779
Depreciation of fixed assets	673 632	548 613
	<u>19 114 180</u>	<u>15 600 618</u>
EXCESS REVENUE OVER EXPENDITURE (EXPENDITURE OVER REVENUE)	(107 829)	1 940
EQUITY, BEGINNING OF YEAR	<u>938 815</u>	<u>936 875</u>
EQUITY, END OF YEAR	<u><u>\$830 986</u></u>	<u><u>\$938 815</u></u>

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

BALANCE SHEET
as at June 30, 2003

	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets		
Cash on hand	\$3 321 522	\$4 017 119
Accounts receivable	2 016 488	1 439 234
Police force contribution receivable		
First instalment		5 441
Second instalment	2 774 732	2 930 451
Prepaid rent	668 176	3 283 170
Inventory	414 950	59 975
	<u>9 195 868</u>	<u>11 735 390</u>
Long term assets		
Fixed assets (Note 7)	<u>2 458 362</u>	<u>1 230 189</u>
	<u><u>\$11 654 230</u></u>	<u><u>\$12 965 579</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals		
Wages payable	\$528 800	\$343 259
Other	1 798 723	1 182 262
Provision for vacation time	647 131	514 546
Deferred revenue (Note 9)		
Police force contributions	6 853 741	6 112 561
Gouvernement du Québec subsidy		3 100 000
Other	299 829	175 953
	<u>10 128 224</u>	<u>11 428 581</u>
Long term liabilities		
Provision for sick leave (Note 10)	<u>695 020</u>	<u>598 183</u>
	10 823 244	12 026 764
EQUITY	<u>830 986</u>	<u>938 815</u>
	<u><u>\$11 654 230</u></u>	<u><u>\$12 965 579</u></u>

COMMITMENTS (Note 11)

On behalf of the Board of Directors,
Robert Nelson, Chairman, Board of Directors
Louise Gagnon-Gaudreau, Director General

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS June 30, 2003

1. CONSTITUTION AND PURPOSE

The École nationale de police du Québec (the École) is a government agent established by the Police Act (R.S.Q., c. P-13.1). The mission of the École, as a preferred venue for deliberating on and integrating activities related to police training, is to ensure that this training is relevant, of high quality and coherent.

Under federal and provincial income tax legislation, the École is not subject to income tax.

2. ACCOUNTING POLICIES

The financial policies of the École were prepared by management on an accrual basis in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of cash flows is not shown as it would not provide any useful supplementary information regarding the École's cash flow during the year.

Inventory

Office supplies, food items, ammunition and clothing are valued according to the specific identification method.

Fixed assets

Fixed assets are recorded at cost and depreciated on a straight-line basis at the following periods:

Furniture and equipment	5 and 10 years
Automotive equipment	5 years
Leasehold improvements	5 years
Computer equipment and software	3 and 5 years

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the École lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2003	2002
Subsidy for lodging expenditures	\$3 100 000	\$1 700 000
Compensation following a fire in the gun range	253 600	
	<u>\$3 353 600</u>	<u>\$1 700 000</u>

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2003

4. LODGING AND TRAINING

	Lodging		Training	
	2003	2002	2003	2002
Rookie training	\$1 552 225	\$1 325 986	\$1 740 224	\$993 923
Police officer training	739 966	685 438	810 211	478 086
Native training	255 696	167 038	697 978	440 583
Customized training	47 150	155 118	418 116	642 165
Assessment centre for police personnel	39 504	21 667	606 218	555 459
Other	256 443	232 300		
	<u>\$2 890 984</u>	<u>\$2 587 547</u>	<u>\$4 272 747</u>	<u>\$3 110 216</u>

5. SALARIES AND FRINGE BENEFITS

	2003	2002
Police officers – Sûreté du Québec	\$577 709	\$389 843
Municipal police officers	1 277 512	1 321 483
Instructors and lecturers	531 859	376 988
Other employees	9 867 781	8 779 643
	<u>\$12 254 861</u>	<u>\$10 867 957</u>

6. MATERIAL AND TEACHING MATERIALS

	2003	2002
Teaching materials	\$653 456	\$535 103
Foodstuffs and dwelling	513 797	371 516
Stationery, office supplies and articles	177 978	156 107
	<u>\$1 345 231</u>	<u>\$1 062 726</u>

7. FIXED ASSETS

	2003		2002	
	Cost	Accumulated depreciation	Net	Net
Furniture and equipment	\$2 452 557	\$1 155 794	\$1 296 763	\$308 317
Automotive equipment	1 359 955	928 076	431 879	458 096
Leasehold improvements	640 043	541 644	98 399	94 293
Computer equipment and software	1 431 875	800 553	631 322	369 483
	<u>\$5 884 430</u>	<u>\$3 426 067</u>	<u>\$2 458 363</u>	<u>\$1 230 189</u>

Acquisitions of fixed assets totalled \$1 901 805 (2002: \$519 977). The disposal of fixed assets generated gains of \$4 602 (2002: gains of \$1 400) and proceeds of \$4 602 (2002: \$1 400).

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2003

8. SHORT- TERM BORROWING

The École is authorized to contract short-term borrowings or borrow on credit to a maximum of \$5 000 000, until June 30, 2007, at variable or fixed rates not exceeding the prime rate, from financial institutions or the Gouvernement du Québec Financing Fund. At June 30, 2003, the École had no short-term borrowing.

9. DEFERRED REVENUE

The revenue deferred in relation to police force contributions represents the portion of the total contribution that will be earned in the following fiscal year.

The revenue deferred in relation to the subsidy represents, where applicable, an amount received from the Gouvernement du Québec to finance the École's rental expenditures for the following fiscal year.

Other deferred revenue comprises primarily dwelling income received in advance for the basic police-training program.

10. FUTURE FRINGE BENEFITS**Pension Plans**

The staff members of the École participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP), Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ) or Pension of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The École assumes employer contributions for members of its staff who were released by the Sûreté du Québec and who contribute to the SPMSQ. Employer contributions assumed by the École and charged to the year-end statement amount to \$355 281 (2002: \$276 601). The École's liability towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave

	2003	2002
Opening balance	\$598 183	\$555 086
Expenditure for the year	204 950	153 197
Benefits paid during the year	(108 113)	(110 100)
Closing balance	<u>\$695 020</u>	<u>\$598 183</u>

11. COMMITMENTS

The École is committed, under long-term leases terminating in 2028, to rent buildings and, under operating leases terminating in 2007, to rent goods and services.

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2003

11. COMMITMENTS (cont'd)

The fiscal year's expenditure for building rental is \$3 221 987 (2002: \$1 516 830) and for goods and services rental is \$94 484 (2002: \$72 857). Minimum future payments are as follows:

Year	Buildings	Goods and services
2004	\$7 085 100	\$51 843
2005	7 085 100	51 843
2006	7 085 100	51 843
2007	7 085 100	38 883
2008	7 085 100	
2009 and thereafter	141 702 000	
	<u>\$177 127 500</u>	<u>\$194 412</u>

12. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the École is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The École did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

13. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equal to their book value.

14. COMPARATIVE FIGURES

Certain 2002 figures were reclassified for consistency with the presentation adopted in 2003.

ÉCOLE NATIONALE DE POLICE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the École nationale de police du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The École recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors, through its audit committee, must oversee the way in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the École's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Louise Gagnon-Gaudreau
Director General

Daniel Jean, CMA
Director of Administrative Affairs

Nicolet, August 21, 2003

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the École nationale de police du Québec as at June 30, 2003 and the statements of revenue and expenditure and of equity for the year then ended. These financial statements are the responsibility of École management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the École's financial position as at June 30, 2003 and the results of its operations and the cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, CA
Acting Auditor General of Québec

Québec, August 21, 2003

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC
(Q.S., 2000, c. 20)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended June 30, 2003

	<u>2003</u>	<u>2002</u>
REVENUE		
Gouvernement du Québec subsidy	\$1 200 000	\$1 200 000
Interest	<u>19 297</u>	<u>21 909</u>
	<u>1 219 297</u>	<u>1 221 909</u>
EXPENDITURE		
Salaries and fringe benefits	599 140	380 045
Travel costs	60 497	51 357
Communication	11 001	8 807
Professional services	122 615	122 577
Advertising and promotion	81 482	122 246
Rent	107 469	124 831
Development of training programs and teaching materials	50 590	78 725
Furniture and supplies	74 314	34 850
Financial charges	2 261	1 533
Depreciation of fixed assets	<u>92 426</u>	<u>61 715</u>
	<u>1 201 795</u>	<u>986 686</u>
EXCESS REVENUE OVER EXPENDITURE	17 502	235 223
SURPLUS, BEGINNING OF YEAR	<u>465 103</u>	<u>229 880</u>
SURPLUS, END OF YEAR	<u><u>\$482 605</u></u>	<u><u>\$465 103</u></u>

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

BALANCE SHEET
as at June 30, 2003

	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets		
Cash on hand	\$229 197	\$294 660
Accounts receivable	2 262	2 852
Prepaid expenses	<u>29 882</u>	<u>6 173</u>
	261 341	303 685
Fixed assets (Note 3)	<u>279 690</u>	<u>255 985</u>
	<u><u>\$541 031</u></u>	<u><u>\$559 670</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$58 426	\$94 567
SURPLUS	<u>482 605</u>	<u>465 103</u>
	<u><u>\$541 031</u></u>	<u><u>\$559 670</u></u>

On behalf of the Board of Directors,
Denis Racicot, Chairman, Board of Directors

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS June 30, 2003

1. CONSTITUTION AND PURPOSE

The École nationale des pompiers du Québec is a legal person, incorporated on September 1, 2000 and governed by the Fire Safety Act (Q.S., 2000, c. 20). The mission of the school is to ensure that firefighters and other municipal fire safety personnel in Québec receive pertinent, high-quality and coherent qualifying professional fire safety training.

Under its incorporating legislation, the École nationale des pompiers du Québec is an agent of the Gouvernement du Québec and, as such, not subject to income tax.

2. ACCOUNTING POLICIES

The financial statements of the École were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of cash flows is not shown as it would not provide any useful supplementary information regarding the École's cash flow during the year.

Fixed assets

Fixed assets are recorded at cost and depreciated on a straight-line basis at the following rates:

Leasehold improvements	20%
Computer equipment and software	33 1/3%
Furniture and equipment	20%
Other equipment	33 1/3%

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the École lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. FIXED ASSETS

	2003		2002
	Cost	Accumulated depreciation	Net Value
Leasehold improvements	\$197 057	\$86 979	\$146 337
Computer equipment and software	159 574	46 324	41 065
Furniture and equipment	83 500	31 633	61 743
Other equipment	7 035	2 540	6 840
	<u>\$447 166</u>	<u>\$167 476</u>	<u>\$255 985</u>

Fixed asset acquisitions for the fiscal year totalled \$116 130 (\$95 974 in 2002).

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2003

4. PENSION PLANS

The staff members of the École participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) and Teachers Pension Plan (TPP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death. Employer contributions charged to the year-end statement amount to \$21 602 (2002: \$8 373). The École's liability towards these Government plans is restricted to its contributions as an employer.

5. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the École is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The École did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

6. FINANCIAL INSTRUMENTS

The fair value of the cash, receivables, prepaid expenses, payables and accrued expenses equals their book value, given that they mature in the short term.

7. COMPARATIVE FIGURES

Certain 2002 figures were reclassified for consistency with the presentation adopted in 2003.

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

MANAGEMENT'S REPORT

The information contained in the 2002-2003 annual management report of the École nationale des pompiers du Québec (ÉNPQ) is the responsibility of the director general. This responsibility covers the accuracy, completeness and reliability of the related information.

In the past year, management began writing administrative policies and improved certain management tools to be able to monitor activities and achieve goals.

This report outlines the ENPQ's position, mission, organizational values, aims, accomplishments and outlook for the future. It also presents the École's activities, information and performance results.

Yves Desjardins
Director General

Laval, December, 2003

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the École nationale des pompiers du Québec as at June 30, 2003 and the statements of revenue and expenditure and surplus for the year then ended. These financial statements are the responsibility of École management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the École's financial position as at June 30, 2003 and the results of its operations and the cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, CA
Acting Auditor General of Québec

Québec, September 12, 2003

FINANCEMENT-QUÉBEC
 (R.S.Q., c. F-2.01)

INCOME AND RETAINED EARNINGS
 for the year ended March 31, 2004
 (in thousands of dollars)

	<u>2004</u>	<u>2003</u>
NET INTEREST INCOME		
Interest on loans	447 176	412 978
Amortization of discounts and premiums on loans	1 456	1 874
Interest on borrowings and advances	(453 872)	(423 441)
Amortization of discounts and premiums on borrowings and advances	7 486	7 044
Interest on short-term investments	<u>4 959</u>	<u>8 379</u>
	 7 205	 6 834
OTHER OPERATIONS		
Net issuing costs charged to borrowers	4 492	1 270
Administration costs charged to borrowers	<u>2 314</u>	<u>1 926</u>
	 6 806	 3 196
	<u>14 011</u>	<u>10 030</u>
OPERATING AND ADMINISTRATIVE EXPENSES		
Wages, salaries and allowances	250	198
Professional, administrative and other services	120	278
Transportation and communications	2	11
Service agreement with the Financing Fund	576	569
Depreciation of fixed assets	2	2
Other	<u>3</u>	<u>5</u>
	<u>953</u>	<u>1 063</u>
NET INCOME	13 058	8 967
RETAINED EARNINGS, BEGINNING OF YEAR	<u>26 090</u>	<u>17 123</u>
RETAINED EARNINGS, END OF YEAR	<u><u>39 148</u></u>	<u><u>26 090</u></u>

FINANCEMENT-QUÉBEC

BALANCE SHEET
as at March 31, 2004
(in thousands of dollars)

	March 31, 2004	March 31, 2003
ASSETS		
Loans (Note 3)	7 978 560	7 324 929
Accrued interest on loans	155 934	139 382
	<u>8 134 494</u>	<u>7 464 311</u>
Cash on hand	44	86
Short-term investments		72 099
Accounts receivable	223	317
Fixed assets	<u>3</u>	<u>5</u>
	<u>8 134 764</u>	<u>7 536 818</u>
LIABILITIES		
Borrowings (Note 4)	6 155 317	5 007 100
Advances from the Consolidated Revenue Fund (Note 5)	1 761 770	2 311 341
Interest accrued on borrowings and advances	136 412	142 104
Premiums and discounts deferred on borrowings and advances	29 079	36 551
Accounts payable	55	35
Deferred revenue	2 983	3 597
	<u>8 085 616</u>	<u>7 500 728</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 7)	100	100
Contributed surplus	9 900	9 900
Retained earnings	<u>39 148</u>	<u>26 090</u>
	<u>8 134 764</u>	<u>7 536 818</u>

On behalf of the Board of Directors,
Daniel Doyon, Executive Vice-President
Bernard Turgeon, President and CEO

FINANCEMENT-QUÉBEC

CASH FLOWS
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Net income	13 058	8 967
Adjustments for:		
Amortization of discounts and premiums on loans	(1 456)	(1 874)
Amortization of discounts and premiums on borrowings and advances	(7 486)	(7 044)
Depreciation of fixed assets	<u>2</u>	<u>2</u>
	 4 118	 51
Change in non-cash items linked to operations:		
Accrued interest on loans	(16 552)	(15 684)
Accounts receivable	94	10 436
Accrued interest on borrowings and advances	(5 692)	18 057
Accounts payable	20	(10 864)
Deferred revenue	<u>(614)</u>	<u>3 530</u>
	 (22 744)	 5 475
Cash flows used for operating activities	<u>(18 626)</u>	<u>5 526</u>
INVESTMENT ACTIVITIES		
Loans	(2 321 518)	(1 951 401)
Loans repayment	<u>1 669 343</u>	<u>1 182 304</u>
Cash flows used for investment activities	<u>(652 175)</u>	<u>(769 097)</u>
FINANCING ACTIVITIES		
Short-term borrowings	4 101 036	4 464 275
Long-term borrowings	1 500 000	2 224 076
Advances from the Consolidated Revenue Fund	14	(2 492)
Repayment of advances from the Consolidated Revenue Fund	(549 571)	(989 485)
Repayment of short-term borrowings	(3 572 999)	(4 860 644)
Repayment of long-term borrowings	<u>(879 820)</u>	<u></u>
Cash flows provided by financing activities	<u>598 660</u>	<u>835 730</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(72 141)	72 159
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>72 185</u>	<u>26</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 8)	<u><u>44</u></u>	<u><u>72 185</u></u>

FINANCEMENT-QUÉBEC

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

(in thousands of dollars)

1. CONSTITUTION, PURPOSE AND FINANCING

Financement-Québec (the "Corporation") was implemented by the Act respecting Financement-Québec (R.S.Q., c. F-2.01), which came into effect on October 1, 1999. The Corporation is a legal person with partnership capital and an agent of the State.

The Corporation is mandated by its incorporating act to provide financial services to public agencies. It finances them directly by granting them loans or issuing debt instruments on their behalf. It advises them in order to facilitate their access to credit and minimize the cost of financing and, for this purpose, develops financing programs. It may also manage the financial risks of these agencies, notably cash flow risks and foreign exchange risks. The corporation may also provide public agencies with technical services, notably related to financial analysis and management.

The Corporation charges borrowers loan flotation costs to offset those incurred by the Corporation or the Government on borrowings contracted for Financement-Québec. The Corporation also charges borrowers administration costs. The amounts charged are subject to Government approval.

2. ACCOUNTING POLICIES

The financial statements were prepared by Corporation management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best judgements and estimates.

Short-term investments

Short-term investments are recorded at cost or market value, whichever is less.

Fixed assets

The computer equipment owned by Financement-Québec is recorded at acquisition cost and amortized over its service life using the straight-line method and a rate of 20%.

Deferred costs and revenue

Deferred costs and revenue are amortized over the duration remaining for each instrument according to the straight-line method.

Currency translation

Borrowings and advances from the Consolidated Revenue Fund denominated in foreign currency and repayable in Canadian currency under swap agreements are determined at the exchange rate stipulated in these agreements.

Cash and cash equivalents

The Corporation's policy consists in presenting under cash and cash equivalents bank balances and short-term investments that are easily convertible in the short term and a known amount of cash whose value should not change significantly.

3. LOANS

	March 31, 2004	March 31, 2003
Borrowers		
School boards	2 931 442	2 920 309
Cegeps	1 075 787	943 327
Development establishments and agencies of the health and social services network	2 989 376	2 616 923
Universities and other	981 955	844 370
	<u>7 978 560</u>	<u>7 324 929</u>

FINANCEMENT-QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

3. LOANS (cont'd)**Repayable in Canadian currency**

Maturity date Fiscal year	Amount	Amount
2004		1 332 285
2005	17 214	2 902
2006	557 907	589 998
2007	905 543	954 357
2008	399 253	227 088
2009 – 2028	6 098 643	4 218 299
	<u>7 978 560</u>	<u>7 324 929</u>

The maturity dates and interest rates on the loans extended by the Corporation are, with certain exceptions, identical to those of the advances from the Consolidated Revenue Fund and borrowings acquired for this purpose, based on swap and interest-rate agreements, where applicable. However, given the amounts available, the Corporation may grant new loans from the repayment of loans. The interest rates and maturity dates of these new loans may differ from the conditions of the advance or borrowing originally received.

The balance of discounts and premiums to be amortized in subsequent years was \$3 192 809 at March 31, 2004.

4. BORROWINGS

Maturity date Fiscal year	March 31, 2004		March 31, 2003
	Amount	Rate (%)	Amount
Repayable in Canadian currency			
2004			879 820
2005	528 037	¹	
2007	998 180	5.2236 to 6.456	998 180
2008	500 000	3.74 to 4.107; variable ²	
2009	1 105 500	4.7814 to 5.9515; variable ²	1 105 500
2010	1 000 000	4.602 to 4.8683; variable ²	
2016	309 400	6.109 to 6.393	309 400
	<u>4 441 117</u>		<u>3 292 900</u>
Plus: Swap agreements in Canadian currency	<u>1 714 200</u>		<u>1 714 200</u>
Total in Canadian currency	<u>6 155 317</u>		<u>5 007 100</u>
Repayable in US currency			
2013	782 000	5.391 to 5.82	782 000
Less: Swap agreements in Canadian currency	<u>782 000</u>		<u>782 000</u>
Total in US currency			
Amounts carried forward	<u>6 155 317</u>		<u>5 007 100</u>

FINANCEMENT-QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

4. BORROWINGS (cont'd)

Maturity date Fiscal year	March 31, 2004		March 31, 2003
	Amount	Rate (%)	Amount
Amounts brought forward	6 155 317		5 007 100
Repayable in Euros			
2009	932 200	4.9005 to 5.861; variable ³	932 200
Less: Swap agreements in Canadian currency	932 200		932 200
Total in Euros			
Total borrowings	6 155 317		5 007 100

None of these borrowings are repayable before maturity.

1 Short-term borrowings bear interest at rates varying from 2.03008% to 2.6806%.

2 Bank acceptance rates, three months plus 0.065%, 0.268% and 0.1%

3 Bank acceptance rates, three months plus 0.3877% and 0.319%.

5. ADVANCES FROM THE CONSOLIDATED REVENUE FUND

Maturity date Fiscal year	March 31, 2004		March 31, 2003
	Amount	Rate (%)	Amount
Repayable in Canadian currency			
2004			545 723
2006	742 919	6.00 to 9.50	742 919
2008	395 508	6.50	395 508
2009	5 000	6.98	5 000
2010	390 222	5.50 to 11.00	390 796
2012	69 030	9.5	70 564
2023	155 625	9.375	157 365
	1 758 304		2 307 875
Plus: Swap agreements in Canadian currency	3 466		3 466
Total in Canadian currency (to be reported)	1 761 770		2 311 341

FINANCEMENT-QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

5. ADVANCES FROM THE CONSOLIDATED REVENUE FUND (cont'd)

	March 31, 2004		March 31, 2003
Maturity date			
Fiscal year	Amount	Rate (%)	Amount
Total in Canadian currency (reported)	1 761 770		2 311 341
Repayable in US currency			
2007	3 466	Variable ¹	3 466
	3 466		3 466
Less: Swap agreements in Canadian currency	3 466		3 466
Total in US currency			
Total advances from the Consolidated Revenue Fund	1 761 770		2 311 341

¹ Bank acceptance rates, three months plus 0.277%.

The amounts of capital to be paid over the next five fiscal years break down as follows:

Fiscal year	Amount
2005	3 848
2006	746 768
2007	7 315
2008	399 356
2009	8 848

6. FINANCIAL INSTRUMENTS

Financement-Québec uses fixed-rate swap agreements to manage interest-rate risks related to its financial intermediation activities. Interest-rate swap agreements give rise to periodic exchange of interest payments without exchange at the nominal reference amount on which the payments are based and are recorded as adjustment in interest expenses on the borrowing instrument covered. The volume of interest-rate swap agreements in Canadian currency at March 31, 2004 was \$6 706 million (March 31, 2003: \$6 104 million).

Financement-Québec also uses swap agreements to manage exchange risks related to certain borrowing instruments denominated in foreign currency. The Corporation designates swap agreements as coverage for its firm commitment to pay the interest and principal on the debt denominated in foreign currency, failing which it would be exposed to an exchange risk. The exchange gains and losses on the principal subject to swap agreements are offset by the corresponding exchange gains and losses on the debt denominated in foreign currency.

The fair value of Financement-Québec assets and liabilities at March 31, 2004 was assessed by capitalizing cash flows at market rates for similar fixed-rate securities. Swap and interest-rate agreements are used only for coverage purposes.

FINANCEMENT-QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2004

(in thousands of dollars)

6. FINANCIAL INSTRUMENTS (cont'd)

(in million of dollars)	March 31, 2004		March 31, 2003	
	Book value	Fair value	Book value	Fair value
Borrowings and advances				
Borrowings	6 155	6 493	5 007	5 219
Consolidated Revenue Fund advances	1 762	2 043	2 311	2 573
Swap agreements		(18)		(84)
Interest-rate swap agreements		112		(6)
Total borrowings and advances	<u>7 917</u>	<u>8 630</u>	<u>7 318</u>	<u>7 702</u>
Loans				
Total loans	<u>7 979</u>	<u>8 607</u>	<u>7 325</u>	<u>7 690</u>

The value of other asset and liability financial instruments corresponds essentially to the book value, given their nature or the fact that they mature in the short term.

7. CAPITAL STOCK**Description**

	<u>2004</u>
Authorized:	
1 000 000 common shares with a par value of \$100 each	
Issued and fully paid:	
1 000 common shares	<u>\$100 000</u>

The Corporation's shares are held by Québec's Minister of Finance.

8. CASH FLOWS

	<u>2004</u>	<u>2003</u>
Cash on hand	44	86
Short-term investments		<u>72 099</u>
	<u>44</u>	<u>72 185</u>

The interest paid by the Corporation during the fiscal year totalled \$460 278 644 (2003: \$403 635 922).

FINANCEMENT-QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

9. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Corporation is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Corporation did not carry out any business transactions with these related parties other than during the normal course of its activities and under normal business conditions. These transactions are not shown separately in the financial statements.

10. COMPARATIVE FIGURES

Certain 2002-2003 figures were reclassified for consistency with the presentation adopted in 2003-2004.

FINANCEMENT-QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of Financement-Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Corporation's management acknowledges that it is responsible for conducting affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the way in which management performs its financial reporting duties and has approved the financial statements.

The Auditor General of Québec has audited the Corporation's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Daniel Doyon
Executive Vice-President

Bernard Turgeon
President and CEO

Québec, June 2, 2004

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of Financement-Québec as at March 31, 2004, the statements of income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present, in all material respects, the Commission's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 2, 2004

FONDATION DE LA FAUNE DU QUÉBEC
(R.S.Q., c. C-61.1)

INCOME AND CHANGES IN FUND BALANCES
for the year ended March 31, 2004

	General Fund		Fixed Assets Fund		Total	
	2004	2003	2004	2003	2004	2003
REVENUE						
Contributions collected on the issue of fishing, hunting and trapping licenses	\$3 014 059	\$2 987 532			\$3 014 059	\$2 987 532
Government contributions to employment programs	1 820 108	164 875			1 820 108	164 875
Fundraising (Note 3)	758 611	639 599			758 611	639 599
Other contributions (Note 3)	341 116	388 279	\$208 655	\$21 573	549 771	409 852
Interest	100 897	58 395	6 814	5 387	107 711	63 782
	<u>6 034 791</u>	<u>4 238 680</u>	<u>215 469</u>	<u>26 960</u>	<u>6 250 260</u>	<u>4 265 640</u>
EXPENDITURE (Note 4)						
Cost of wildlife projects	2 993 241	3 121 797	66 394	62 527	3 059 635	3 184 324
Cost of job creation projects	1 827 758	152 931			1 827 758	152 931
Fundraising expenses	520 960	461 315			520 960	461 315
Administrative expenses	505 971	487 386			505 971	487 386
	<u>5 847 930</u>	<u>4 223 429</u>	<u>66 394</u>	<u>62 527</u>	<u>5 914 324</u>	<u>4 285 956</u>
EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE	186 861	15 251	149 075	(35 567)	335 936	(20 316)
OPENING FUND BALANCES	1 265 529	1 300 278	2 465 601	2 451 168	3 731 130	3 751 446
Inter-fund transfers	(25 000)	(50 000)	25 000	50 000		
CLOSING FUND BALANCES	<u>\$1 427 390</u>	<u>\$1 265 529</u>	<u>\$2 639 676</u>	<u>\$2 465 601</u>	<u>\$4 067 066</u>	<u>\$3 731 130</u>

FONDATION DE LA FAUNE DU QUÉBEC

BALANCE SHEET
as at March 31, 2004

	2004			2003
	General Fund	Fixed Assets Fund	Total	Total
ASSETS				
Current assets				
Cash on hand	\$21 232	\$7 543	\$28 775	\$6 763
Term deposits (average rate of 4.98%)	1 319 873	352 146	1 672 019	950 511
Accounts receivable (Note 5)	302 890	4 546	307 436	374 794
Accrued interest	60 826	4 586	65 412	46 822
Inventory	42 439		42 439	25 341
Prepaid expenses	19 452	9 405	28 857	22 511
	<u>1 766 712</u>	<u>378 226</u>	<u>2 144 938</u>	<u>1 426 742</u>
Investments (Note 6)	400 000		400 000	400 000
Fixed assets (Note 7)	<u>119 415</u>	<u>2 265 950</u>	<u>2 385 365</u>	<u>2 369 191</u>
	<u>\$2 286 127</u>	<u>\$2 644 176</u>	<u>\$4 930 303</u>	<u>\$4 195 933</u>
LIABILITIES				
Current liabilities				
Bank overdraft				\$109 757
Accounts payable and accruals	\$448 163	\$4 500	\$452 663	257 427
Deferred subscriptions (Note 9)	406 751		406 751	91 503
Deferred revenue	3 823		3 823	6 116
	<u>858 737</u>	<u>4 500</u>	<u>863 237</u>	<u>464 803</u>
FUND BALANCES				
Invested in fixed assets	119 415	2 265 950	2 385 365	2 369 191
Reserved for partners (Note 10)	98 075		98 075	31 500
Allocations for wildlife projects:				
Balance committed (Note 11)	1 209 900	254 193	1 464 093	1 127 531
Free balance		119 533	119 533	202 908
	<u>1 427 390</u>	<u>2 639 676</u>	<u>4 067 066</u>	<u>3 731 130</u>
	<u>\$2 286 127</u>	<u>\$2 644 176</u>	<u>\$4 930 303</u>	<u>\$4 195 933</u>

DEPOSITS – WILDLIFE PROJECTS (Note 8)**COMMITMENTS** (Note 12)

On behalf of the Board of Directors,
Johanne Gauthier
André Duchesne

FONDATION DE LA FAUNE DU QUÉBEC

CASH FLOWS

for the year ended March 31, 2004

	2004			2003
	General Fund	Fixed Assets Fund	Total	Total
OPERATING ACTIVITIES				
Receipts				
Contributions - users, partners, clients and members	\$3 899 845	\$3 127	\$3 902 972	\$3 728 215
Government contributions	2 416 473	205 709	2 622 182	627 752
Interest earned	82 770	6 352	89 122	66 616
Disbursements				
Contributions to projects	(4 065 355)		(4 065 355)	(2 695 639)
Suppliers and staff members	(1 601 982)	(62 406)	(1 664 388)	(1 633 086)
Interest paid	(4 231)		(4 231)	(2 239)
Cash flows provided for operation activities	727 520	152 782	880 302	91 619
INVESTMENT ACTIVITIES				
Cash flows used for investment activities:				
Acquisition of fixed assets	(16 268)	(10 757)	(27 025)	(20 812)
FINANCING ACTIVITIES				
Cash flows provided by (used for) financing activities:				
Inter-fund transfer	(25 000)	25 000		
INCREASE IN CASH AND CASH EQUIVALENTS	686 252	167 025	853 277	70 807
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	654 853	192 664	847 517	776 710
CASH AND CASH EQUIVALENTS, END OF YEAR *	\$1 341 105	\$359 689	\$1 700 794	\$847 517

* Cash and cash equivalents include cash (bank overdraft) and term deposits.

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION, PURPOSE AND FUNDING

The Fondation de la faune du Québec, a non-profit corporation, was established under the Act respecting the conservation and development of wildlife (R.S.Q., chapter C-61.1) for the purpose of promoting the conservation and development of wildlife and wildlife habitats.

The Fondation is recognized as a charitable organization under provincial and federal tax legislation and is not subject to income tax.

A contribution toward the funding of the Fondation, the amount of which is determined by regulation of the Government, is collected on the issue of fishing, hunting and trapping licences and paid to the Fondation by the Société de la faune des parcs du Québec.

2. ACCOUNTING POLICIES

The financial statements of the Fondation were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

The Fondation's current operations are included in the General Fund.

The Fixed Assets Fund records transactions related to the acquisition of land and development and equipment rights for wildlife habitat protection purposes. The Fondation's net assets are reserved for the acquisition of fixed assets for the Fondation or third parties and for payment of related expenses. These fixed assets may not be disposed of, in whole or in part, without the consent of the partners who contributed to their purchase. This fund is therefore a designated fund.

Contribution recording

Contributions allocated to operations are entered as revenue in the General Fund in the year during which the related expenditures are made. Contributions and interest allocated to fixed assets are entered as revenue in the Fixed Assets Fund.

Non-designated contributions are entered as revenue in the year during which they are made.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is calculated according to the first in, first out (FIFO) method.

Fixed assets

Equipment

Equipment is recorded at cost and amortized over its useful life on a straight-line basis at rates of 20 and 33 1/3%.

Works of art

Works of art—primarily wildlife paintings—are recorded at cost, except for those which are donated or received in exchange for services rendered, which are recorded, on the acquisition date, at their estimated market value. They are not amortized.

Land

Land is entered at cost, except donated land, which is recorded, on the date of acquisition, at its estimated market value or a value based on its municipal assessment.

Development rights

Development rights held under acts of servitude for wildlife are recorded at cost. They are not amortized.

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**2. ACCOUNTING POLICIES (cont'd)****Cash and cash equivalents**

The Fondation's policy consists in presenting under cash and cash equivalents cash on hand, bank overdraft and term deposits that are easily convertible in the short term and a known amount of cash whose value should not change significantly.

Pension plans

The Fondation participates in interenterprise government defined-benefits plans. Since it lacks sufficient information to apply the accounting procedure for defined-benefit plans, the Fondation applies the accounting procedure for defined-contribution plans.

3. FUNDRAISING AND OTHER CONTRIBUTIONS

	2004			2003
	Fundraising	Other contributions		Total
		Operations	Fixed assets	
Governments and municipalities	\$80 222	\$188 279	\$205 309 *	\$473 810
Enterprises	379 369	9 500		388 869
Individuals	233 318	44 735		278 053
Foundations and NPOs	65 702	98 602	3 346	167 650
	<u>\$758 611</u>	<u>\$341 116</u>	<u>\$208 655</u>	<u>\$1 308 382</u>
				<u>\$1 049 451</u>

* Includes \$200 000 reserved for the acquisition of natural environments in Québec City.

4. EXPENDITURE**General Fund**

	2004	2003
Cost of wildlife projects		
Contributions:		
Partners' habitat-related projects	\$1 849 296	\$1 914 786
Fondation's habitat-related projects *	68 715	97 281
Fishing-related projects and projects related to the next generation **	498 604	570 958
Salaries and fringe benefits	474 135	456 991
Professional fees	10 621	280
Purchase of goods	7 320	
Travelling expenses	9 616	11 817
Meetings, conferences and professional development	3 582	7 441
Advertising and promotional expenses	60 176	51 168
Printing and office expenses	8 097	8 154
Furniture and equipment	623	738
Depreciation of fixed assets	2 456	2 107
Other		76
	<u>\$2 993 241</u>	<u>\$3 121 797</u>

* Includes \$13 770 (2003: \$48 658) for professional fees.

** An amount of \$13 192 for the purchase of fishing rods and the corresponding revenue were not presented in 2004 (2003: -\$).

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**4. EXPENDITURE (cont'd)****General Fund (cont'd)**

	2004	2003
Cost of job creation projects		
Wage subsidies	\$1 820 108	\$151 320
Training subsidies		1 611
Other costs	7 650	
	<u>\$1 827 758</u>	<u>\$152 931</u>
Fundraising expenses		
Salaries and fringe benefits	\$229 841	\$217 111
Professional fees	15 382	8 850
Commissions and royalties	34 072	45 912
Purchase of goods	43 175	46 698
Travelling expenses	15 044	20 460
Meetings, conference and professional development	17 826	11 029
Meals / benefits (events)	35 516	11 951
Advertising and promotional expenses	86 078	68 666
Printing and office expenses	22 070	20 439
Furniture and equipment	624	252
Depreciation of fixed assets	2 838	2 451
Other	18 494	7 496
	<u>\$520 960</u>	<u>\$461 315</u>
Administrative expenses		
Salaries and fringe benefits	\$347 789	\$329 855
Professional fees		270
Travelling expenses	16 484	17 918
Meetings, conference and professional development	3 905	4 366
Advertising and promotional expenses	11 224	10 333
Rent	83 405	81 126
Printing and office expenses	23 057	28 404
Furniture and equipment	3 647	2 113
Depreciation of fixed assets	5 121	3 743
Other	11 339	9 258
	<u>\$505 971</u>	<u>\$487 386</u>

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**4. EXPENDITURE (cont'd)****Fixed Assets Fund**

	2004	2003
Cost of wildlife projects		
Contributions:		
Land acquisition and protection projects		\$250
Indirect costs:		
Salaries and fringe benefits	\$24 529	23 836
Professional fees	14 315	8 063
Advertising and promotional expenses	6 692	6 255
Land management	17 033	23 013
Travelling expenses and other	3 825	1 110
	<u>\$66 394</u>	<u>\$62 527</u>

5. ACCOUNTS RECEIVABLE

Accounts receivable includes an amount of \$78 679 (2003: \$89 380) owed by Gouvernement du Québec departments and agencies.

6. INVESTMENTS

Investments are presented at cost. These term deposits mature between June 12, 2004 and June 12, 2007 and bear interest at rates varying between 3.16% and 6.35%. (Average rate of 5%)

7. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net
General Fund			
Equipment	\$82 243	\$64 383	\$17 860
Works of art	101 555		101 555
	<u>183 798</u>	<u>64 383</u>	<u>119 415</u>
Fixed Assets Fund			
Equipment	6 568	6 568	
Land	2 181 950		2 181 950
Management right	84 000		84 000
	<u>2 272 518</u>	<u>6 568</u>	<u>2 265 950</u>
	<u>\$2 456 316</u>	<u>\$70 951</u>	<u>\$2 385 365</u>

Depreciation for the year amounts to \$10 851 (2003: \$8 301).

FONDATION DE LA FAUNE DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004
8. DEPOSITS – WILDLIFE PROJECTS

The Fondation holds funds on behalf of certain agencies for special projects in which the Fondation is not involved. The balance of these funds comprising cash, term deposits, accrued interest and related operations are not included in the Fondation's financial statements.

	2004	2003
Opening fund balance	\$1 452 466	\$1 572 671
Deposits and interest earned	556 338	635 221
Disbursements and administrative costs	(884 483)	(742 142)
Decrease in accrued interest	(17 044)	(13 284)
Closing fund balance	<u>\$1 107 277</u>	<u>\$1 452 466</u>

9. DEFERRED CONTRIBUTIONS

Deferred contributions present the amounts received from the Fonds Jeunesse Québec, a program that began in June 2003, and other partners designed to cover future expenditures. Changes in the amounts of the contributions recorded are as follows:

	2004			2003
	Fonds Jeunesse Québec	Other	Total	Total
Opening balance		\$91 503	\$91 503	\$138 146
Contributions for the fiscal year	\$2 176 176	69 370	2 245 546	254 099
Amounts noted as products of the fiscal year	(1 820 108)	(110 190)	(1 930 298)	(300 742)
Closing balance	<u>\$356 068</u>	<u>\$50 683</u>	<u>\$406 751</u>	<u>\$91 503</u>

10. RESERVED FOR PARTNERS

The Fondation signed an agreement with the Société de la Faune et des Parcs du Québec governing the management of dedicated funds under which it receives contributions to carry out habitat projects. In keeping with this agreement, the amounts received from contributors and not used to projects are reserved for the partner benefiting from the agreement.

11. ALLOCATIONS FOR WILDLIFE PROJECTS
General Fund

The Fondation has committed to paying a sum of \$2 672 939 as financial assistance for various wildlife projects, with payments breaking down as follows:

2005	\$1 710 018
2006	758 421
2007	151 500
2008 and thereafter	<u>53 000</u>
	<u>\$2 672 939</u>

At March 31, 2004, the financial assistance contracts signed represented \$1 835 249 of the total amount committed.

The Fondation allocated \$1 209 900 to meet its commitments.

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

11. ALLOCATIONS FOR WILDLIFE PROJECTS (cont'd)**Fixed Assets Fund**

The Fondation is committed to paying \$254 193 for the acquisition of land for wildlife purposes in 2005.

12. COMMITMENTS

The Fondation is committed to a long-term lease for office space expiring November 30, 2005. This lease includes a five-year renewal option. The minimum lease payments for the coming fiscal years are as follows:

2005	\$82 175
2006	54 783
	<u>\$136 958</u>

13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its statements and measured at exchange value, the Fondation is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Fondation did not conclude any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

14. FUTURE FRINGE BENEFITS**Pension plan**

The staff members of the Fondation participate in the Government and Public Employees Retirement Plan (RREGOP). This is an interenterprise defined-benefit plan and includes guaranteed payments on retirement and death.

The Fondation's contributions charged to the year-end statement amount to \$35 876 (2003: \$37 721). The Fondation's liability towards this Government plan is restricted to its contributions as an employer.

15. FINANCIAL INSTRUMENTS**Bank borrowing**

At March 31, 2004, the Fondation had a bank credit line of \$500 000 that could be renewed on an annual basis. This credit line is guaranteed by investments. The amounts used bear interest at the prime rate minus 1%.

Fair value

The market value of investments was \$413 646 at March 31, 2004 (2003: \$415 240).

The fair value of the other financial instruments is equal to the book value, given that they mature in the short term.

16. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

FONDATION DE LA FAUNE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Fondation de la Faune du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Fondation recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Fondation's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Bernard Beaudin
President and Chief Executive Officer

Sainte-Foy, May 27, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fondation de la faune du Québec as at March 31, 2004 and the statements of income and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Fondation management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present, in all material respects, the Fondation's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 27, 2004

FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES
(R.S.Q., c. S-4.01)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended December 31, 2003

	<u>2003</u>	<u>2002</u>
REVENUE		
Contributions by funds established in houses of detention	\$60 612	\$67 060
Interest on loans	21 417	29 209
Interest on investments and bank deposits	34 096	30 518
Dividends on mutual fund units	<u>1 711</u>	<u>3 177</u>
	<u>117 836</u>	<u>129 964</u>
EXPENDITURE		
Salaries and fringe benefits	65 992	65 342
Administrative expenses	27 845	32 058
Professional fees	4 076	4 326
Gift to funds established in houses of detention	168 290	27 896
Loss on sales of mutual fund units	<u>548</u>	<u></u>
	<u>266 751</u>	<u>129 622</u>
EXCESS (EXPENDITURE OVER REVENUE)		
REVENUE OVER EXPENDITURE	(148 915)	342
SURPLUS, BEGINNING OF YEAR	<u>2 087 613</u>	<u>2 087 271</u>
SURPLUS, END OF YEAR	<u>\$1 938 698</u>	<u>\$2 087 613</u>

FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

BALANCE SHEET

as at December 31, 2003

	2003	2002
ASSETS		
Current assets		
Cash on hand	\$70 156	\$56 815
Short-term investments, at rates varying from 2.11% to 2.76%	500 000	100 000
Contributions receivable	60 680	64 943
Accrued interest	5 196	2 615
Loans (Note 3)	24 802	60 903
	<u>660 834</u>	<u>285 276</u>
Loans (Note 3)	320 881	721 312
Investments (Note 4)	959 015	1 080 049
Fixed assets (Note 5)	<u>2 991</u>	<u>5 595</u>
	<u><u>\$1 943 721</u></u>	<u><u>\$2 092 232</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$5 023	\$4 619
SURPLUS	<u>1 938 698</u>	<u>2 087 613</u>
	<u><u>\$1 943 721</u></u>	<u><u>\$2 092 232</u></u>

On behalf of the Board of Directors,
 Jacques Hébert
 Jacques Vachon

FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

CASH FLOWS

for the year ended December 31, 2003

	2003	2002
OPERATING ACTIVITIES		
Excess (expenditure over revenue) revenue over expenditure	\$(148 915)	\$342
Adjustments for:		
Donation of immoveable		1 241
Amortization of fixed assets	2 604	2 363
Loss on sale of mutual fund units	548	
Dividends on mutual fund units	(1 711)	(3 177)
	(147 474)	769
Change in elements linked to operations		
Encashment of loans	436 532	162 252
New loans		(100 000)
Contributions receivable	4 263	(21 063)
Accrued interest	53 020	(7 358)
Accounts payable and accruals	404	(427)
	494 219	33 404
Cash flows provided by operating activities	346 745	34 173
INVESTMENT ACTIVITIES		
Acquisition of short-term investments	(400 000)	
Disposal of short-term investments		2 394
Acquisition of fixed assets		(3 636)
Acquisition of investments	(645 925)	(391 310)
Proceeds from sale of investments	712 521	370 636
Cash flows used for investment activities	(333 404)	(21 916)
INCREASE IN CASH AND CASH EQUIVALENTS	13 341	12 257
CASH POSITION, BEGINNING OF YEAR	56 815	44 558
CASH POSITION, END OF YEAR	\$70 156	\$56 815

FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

1. CONSTITUTION, PURPOSE AND FINANCING

A legal person within the meaning of the Civil Code, the Fonds central pour le bénéfice des personnes incarcérées was established under the Act respecting correctional services (R.S.Q., c. S-4.01). Its functions are to lend support to funds established in houses of detention and in financial difficulty, for which purpose it may make them gifts or grant them loans with or without interest; devise policies concerning programs of activities and advise the Government on what regulations to adopt; and approve the program of activities established by all funds established in houses of detention.

The Fonds receives contributions from all funds established for the benefit of persons confined in houses of detention. The Government prescribes the limits within which the Fonds may determine this contribution, which may vary according to the criteria it prescribes by regulation.

Under the applicable income tax legislation, the Fonds is not subject to income tax.

2. ACCOUNTING POLICIES

The financial statements of the Fonds were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Short-term investments

Short-term investments are recorded at cost.

Investments

Investments are recorded at acquisition value.

Fixed assets

Fixed assets are recorded at cost and amortized based on their service life using the straight-line method.

	<u>Service life</u>
Computer equipment	3 years
Office equipment	5 years

3. LOANS

	<u>2003</u>	<u>2002</u>
Loans to funds established in houses of detention		
Sherbrooke – bearing interest at 5.5%, encashable in monthly instalments of \$1 171 (principal and interest), maturing in 2015*	\$118 335	\$125 662
Sherbrooke – interest-free, encashable in monthly instalments of \$417, maturing in 2013*	<u>46 250</u>	<u>50 000</u>
Amounts carried forward	<u>\$164 585</u>	<u>\$175 662</u>

FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003**3. LOANS** (cont'd)

	2003	2002
Amounts brought forward	\$164 585	\$175 662
Trois-Rivières – bearing interest at 5.5%, encashable in monthly instalments of \$1 217 (principal and interest), maturing in 2015*	120 973	128 689
New-Carlisle – interest-free, encashable in monthly instalments of \$542, maturing in 2013*	60 125	65 000
Québec (men's sector) bearing interest at 5.5%		210 781
Québec (men's sector) interest-free		202 083
	345 683	782 215
Payments receivable in the coming fiscal year	24 802	60 903
	<u>\$320 881</u>	<u>\$721 312</u>

* The interest rate and terms and conditions of repayment will be re-evaluated annually on the loan's anniversary date.

4. INVESTMENTS

	2003	2002
Bonds		
Gouvernement du Québec, at rates varying from 2.75% to 4.16%, maturing between 2005 and 2006	\$518 461	\$366 647
Government of Ontario, at rate of 3.29%, maturing in 2006	72 699	
Hydro-Québec, at a rate of 6.52%		116 240
Hydro-Ontario, at a rate of 6.147%, maturing in 2004	119 774	119 774
Université Laval, at a rate of 4.61%		99 870
Accrued interest	38 805	94 405
	749 739	796 936
Mutual fund units	209 276	283 113
	<u>\$959 015</u>	<u>\$1 080 049</u>

5. FIXED ASSETS

	2003			2002
	Cost	Accumulated depreciation	Net	Net
Office equipment	\$3 300	\$2 310	\$990	\$1 650
Computer equipment	6 927	4 926	2 001	3 945
	\$10 227	\$7 236	\$2 991	\$5 595

FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003

6. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value due to their pending maturity date. The following table indicates the book value and the fair value of the Fonds' long-term financial instruments.

	2003		2002	
	Book value	Fair value	Book value	Fair value
Financial assets				
Investments	\$959 015	\$969 229	\$1 080 049 ⁽¹⁾	\$1 076 080
Loans ⁽²⁾	345 683		782 215	

(1) The book value of these long-term investments has not been reduced, given that their value did not depreciate permanently.

(2) The fair value of these financial instruments cannot reasonably be estimated, given the lack of markets for this type of loan.

MANAGEMENT'S REPORT

The financial statements of the Fonds central pour le bénéfice des personnes incarcérées have been drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for use in preparing reliable financial statements.

The Fonds recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties and has approved the financial statements.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Jacques Hébert
President

Sainte-Foy, March 5, 2004

FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Fonds central pour le bénéfice des personnes incarcérées as at December 31, 2003, the statement of revenue and expenditure and surplus and the statement of cash flows for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at December 31, 2003 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 5, 2004

FONDS D'AIDE AUX RECOURS COLLECTIFS
(R.S.Q., c. R-2.1)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Gouvernement du Québec subsidy	\$837 100	\$833 600
Subrogations	244 010	148 225
Balances on class actions and settled claims	101 758	137 272
Interest	<u>53 214</u>	<u>58 268</u>
	<u>1 236 082</u>	<u>1 177 365</u>
EXPENDITURE		
Assistance to recipients (Note 3)	962 485	919 304
Expenses of the board of directors:		
Fees and fringe benefits	43 386	52 845
Communications and travelling expenses	<u>5 387</u>	<u>8 556</u>
	48 773	61 401
Administrative expenses:		
Salaries and fringe benefits	185 923	231 042
Rent	31 699	32 040
Professional and administrative services	17 024	27 071
Transportation and communications	7 289	9 715
Materials and supplies	2 185	3 311
Maintenance and repairs	1 114	194
Depreciation of fixed assets	7 642	2 547
Other expenses	<u>69</u>	<u>858</u>
	252 945	306 778
	<u>1 264 203</u>	<u>1 287 483</u>
EXCESS EXPENDITURE OVER REVENUE	(28 121)	(110 118)
SURPLUS, BEGINNING OF YEAR	<u>2 408 739</u>	<u>2 518 857</u>
SURPLUS, END OF YEAR	<u>\$2 380 618</u>	<u>\$2 408 739</u>

SEGMENTAL REPORTING (Note 4)

FONDS D'AIDE AUX RECOURS COLLECTIFSBALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$166 869	\$566 534
Short-term investments – at cost	958 900	275 000
Accounts receivable		603
Accrued interest	29 386	35 904
Prepaid expenses	100	875
	<u>1 155 255</u>	<u>878 916</u>
Investments – at cost (Note 5)	1 278 788	1 578 788
Fixed assets (Note 6)	<u>12 968</u>	<u>20 610</u>
	<u>\$2 447 011</u>	<u>\$2 478 314</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$54 098	\$56 502
Provision for sick leave (Note 9)	<u>12 295</u>	<u>13 073</u>
	<u>66 393</u>	<u>69 575</u>
SURPLUS (Note 7)		
Maintenance of liquid assets	100 000	100 000
Coverage of commitments	<u>2 280 618</u>	<u>2 308 739</u>
	<u>2 380 618</u>	<u>2 408 739</u>
	<u>\$2 447 011</u>	<u>\$2 478 314</u>
COMMITMENTS (Note 8)		
On behalf of the Board of Directors, Jean Bernier Anne Turgeon		

FONDS D'AIDE AUX RECOURS COLLECTIFS**NOTES TO FINANCIAL STATEMENTS**
March 31, 2004

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Fonds d'aide aux recours collectifs was established under the Act respecting the class action (R.S.Q., c. R-2.1) for the purpose of funding class action suits and disseminating information respecting the exercise of such suits. It ensures the necessary funding for launching and carrying out class action suits.

Under the Income Tax Act (R.S.C., 1985, c.1, 5th supplement) and the Taxation Act (R.S.Q., c. I-3), the Fonds is not subject to income tax.

2. ACCOUNTING POLICIES

The financial statements of the Fonds were prepared by management on an accrual basis in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The cash flow statement is not shown as it would not provide any useful additional information regarding the Fonds' cash flow during the year.

Revenue

Revenue from subrogations, balances on class actions and settled claims is recorded when cashed.

Expenditures

Expenditures in assistance to recipients are recorded during the year the assistance is required and payable inasmuch as beneficiaries met the eligibility criteria, where applicable.

Fixed assets

Fixed assets are presented at acquisition cost and amortized using the straight-line method over their estimated service life, which is 3 years.

Pension plan

The accounting procedure used for defined-contribution plans is applied to interentreprise government defined-benefit plans, given that the Fonds lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. FINANCIAL ASSISTANCE TO RECIPIENTS

Financial assistance to recipients for group claims in 2004 was \$193 598 for a Saguenay region file following the July 1996 floods. In 2003, financial assistance paid in this regard comprised \$39 146 for three files.

FONDS D'AIDE AUX RECOURS COLLECTIFS

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

4. SEGMENTAL REPORTING

Activity sectors	2004			2003		
	Operations	Assistance to recipients	Total	Operations	Assistance to recipients	Total
Revenue						
Gouvernement du Québec subsidy	\$438 900	\$398 200	\$837 100	\$435 400	\$398 200	\$833 600
Subrogations		244 010	244 010		148 225	148 225
Balances on class actions and settled claims ¹		101 758	101 758		137 272	137 272
Interest		53 214	53 214		58 268	58 268
	<u>438 900</u>	<u>797 182</u>	<u>1 236 082</u>	<u>435 400</u>	<u>741 965</u>	<u>1 177 365</u>
Expenditure						
Assistance to recipients	-----	962 485	962 485	-----	919 304	919 304
Expenses of the board of directors:						
Fees and fringe benefits	43 386		43 386	52 845		52 845
Communications and travelling expenses	<u>5 387</u>		<u>5 387</u>	<u>8 556</u>		<u>8 556</u>
	48 773		48 773	61 401		61 401
Administrative expenses:						
Salaries and fringe benefits	185 923		185 923	231 042		231 042
Rents	31 699		31 699	32 040		32 040
Professional and administrative expenses	17 024		17 024	27 071		27 071
Transportation and Communications	7 289		7 289	9 715		9 715
Materials and supplies	2 185		2 185	3 311		3 311
Maintenance and repairs	1 114		1 114	194		194
Depreciation of fixed Assets	7 642		7 642	2 547		2 547
Other expenses	<u>69</u>		<u>69</u>	<u>858</u>		<u>858</u>
	252 945		252 945	306 778		306 778
	<u>301 718</u>	<u>962 485</u>	<u>1 264 203</u>	<u>368 179</u>	<u>919 304</u>	<u>1 287 483</u>
Excess expenditure over revenue	<u>\$137 182</u>	<u>\$(165 303)</u>	<u>\$(28 121)</u>	<u>\$67 221</u>	<u>\$(177 339)</u>	<u>\$(110 118)</u>

¹ In accordance with the Act respecting the class action, all revenue from balances on class actions and settled claims is allocated to assistance to recipients.

FONDS D'AIDE AUX RECOURS COLLECTIFS

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

5. INVESTMENTS

	2004		2003	
	Cost	Fair value	Cost	Fair value
Québec savings bond maturing June 1, 2008 at an interest rate of 2%	\$405 788	\$412 570	\$405 788	\$423 531
Québec tiered-rate bonds maturing September 26, 2012 at an interest rate of 3% until September 25, 2004 and 4% until September 25, 2005	873 000	886 490	1 173 000	1 188 024
	<u>\$1 278 788</u>	<u>\$1 299 060</u>	<u>\$1 578 788</u>	<u>\$1 611 555</u>

6. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net value
Computer equipment	<u>\$23 157</u>	<u>\$10 189</u>	<u>\$12 968</u>
			<u>\$20 610</u>

7. SURPLUS

The Fonds board of directors deems it essential to maintain liquid assets of \$100 000 in its Working Capital Fund. Moreover, it passed a resolution to reserve the surplus for the Fonds' present and future commitments.

8. COMMITMENTS

At March 31, 2004, Fonds' commitments related to assistance to recipients amounted to \$2 678 498 (2003: \$2 367 904), including \$112 746 (2003: \$138 234) for a suit related to the Saguenay floods and \$190 000 for two tobacco files (Létourneau and Conseil québécois sur le tabac et la santé).

9. FUTURE FRINGE BENEFITS**Pension plan**

Fonds staff members participate in the Government and Public Employees Retirement Plan (RREGOP). This is an interenterprise defined-benefit plan that includes guaranteed payments upon retirement and death.

The Fonds contributions charged to the year-end statement were \$6 216 (2003: \$6 549). The Fonds' liability towards this Government plan is restricted to its contributions as an employer.

Provision for sick leave

	2004	2003
Opening balance	\$13 073	\$11 049
Expenditure for the year	7 462	7 080
Benefits paid during the year	<u>(8 240)</u>	<u>(5 056)</u>
Closing balance	<u>\$12 295</u>	<u>\$13 073</u>

FONDS D'AIDE AUX RECOURS COLLECTIFS

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

10. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value, given their pending maturity date.

11. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its statements and measured at exchange value, the Fondation is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Fondation did not conclude any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

12. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

MANAGEMENT'S REPORT

The financial statements of the Fonds d'aide aux recours collectifs were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Fonds recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties and has approved the financial statements.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Jean Bernier
President

Louise Ducharme
Legal Counsel and Secretary

Montréal, June 30, 2004

FONDS D'AIDE AUX RECOURS COLLECTIFS**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Fonds d'aide aux recours collectifs as at March 31, 2004 and the statement of revenue and expenditure and surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 30, 2004

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**
(R.S.Q., c. M-35.1)

REVENUE AND EXPENDITURE AND FUND BALANCE
for the fiscal year ended March 31, 2004

	2004	2003
REVENUE		
Premiums	\$101 371	\$97 807
Investment income (Note 3)	(425 169)	81 188
	(323 798)	178 995
EXPENDITURE		
Guarantee claims	693 871	12 180
EXCESS REVENUE OVER EXPENDITURE	(1 017 669)	166 815
OPENING FUND BALANCE	4 869 610	4 702 795
CLOSING FUND BALANCE	\$3 851 941	\$4 869 610

BALANCE SHEET
as at March 31, 2004

	2004	2003
ASSETS		
Cash on hand	\$14 294	\$32 779
Accounts receivable		185 594
Deposits with the Fond particulier 329 of the Caisse de dépôt et placement du Québec		
Demand deposits and accrued interest	45 377	102 888
Participation deposits (Note 4)	4 470 945	4 588 261
	\$4 530 616	\$4 909 522
LIABILITIES		
Accounts payable	\$1 890	\$3 158
Guarantee claim payable	664 573	7 870
Prepaid premiums	12 212	28 884
	678 675	39 912
FUND BALANCE	3 851 941	4 869 610
	\$4 530 616	\$4 909 522

GUARANTEE POLICIES (Note 6)

On behalf of the Régie,
Gaétan Busque
Yves Lapierre

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

1. CONSTITUTION AND PURPOSE

The Régie des marchés agricoles et alimentaires du Québec was established by a special Act (R.S.Q., c. M-35.1).

The Régie's functions are to foster the efficient and orderly marketing of agricultural and food products, the development of harmonious relations between the various parties involved and the settlement of disputes arising in connection with the production and marketing of such products, taking into account the interests of consumers and the protection of the public interest. The Régie has the same functions in respect of the marketing of fish products. It also manages the Fonds d'assurance-garantie.

Fonds d'assurance-garantie

The Fonds d'assurance-garantie results from the Régie's application of Division V (pertaining to guarantee policies) of the Act respecting the marketing of agricultural, food and fish products (R.S.Q., c. M-35.1, Title III, Chapter XI).

The Régie provides milk dealers with guarantee policies to cover the payment of sums that a milk dealer owes or may owe to his producers or to the agency responsible for applying a joint plan. Premiums collected and any other net revenue of the Fund must be used solely to pay claims arising from policies issued by the Régie. No one may act as a milk dealer without holding a policy issued by the Régie. On the Government's authorization, the Minister of Finance may advance the sums required by the Régie to discharge its obligations under policies it issues.

2. ACCOUNTING POLICIES

The financial statements of the Fonds d'assurance-garantie administered by the Régie were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best judgements and estimates. The statement of cash flows is not shown as it would not provide any useful supplementary information regarding the Fund's cash flows during the year.

Reimbursement of claims

Claims from producers or from the agency responsible for applying a joint plan are recorded when known. The amount of these claims is adjusted as additional information is known.

Deposits with the Fonds particulier 329 of the Caisse de dépôt et placement du Québec

Deposits are recorded at cost.

Administrative expenses

The Fund's administrative expenses are borne by the Consolidated Revenue Fund.

3. INVESTMENT INCOME

	<u>2004</u>	<u>2003</u>
Fonds particulier 329 of the Caisse de dépôt et placement du Québec:		
Participation deposits	\$(417 248)	\$125 384
Demand deposits	1 291	850
Loss on sale of participation units	<u>(9 212)</u>	<u>(45 046)</u>
	<u>\$(425 169)</u>	<u>\$81 188</u>

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

4. PARTICIPATION DEPOSITS

Participation deposits with the Fonds particulier 329 of the Caisse de dépôt et placement du Québec are expressed in units and each unit gives the holder a proportional share in the net equity and the net revenue of the Fonds particulier 329. Units may be refunded on advance notice in accordance with the terms of payment of the Caisse de dépôt at the fair value of the net equity of the Fonds particulier 329 at the end of each month.

	<u>2004</u>	<u>2003</u>
Number of units	5 095	5 185
Fair value per unit	\$945	\$724
Cost of units	\$4 470 945	\$4 588 261
Fair value of units	\$4 817 131	\$3 753 051

5. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS

Other assets and liabilities

The fair value of cash, accounts receivable, demand deposits, interest earned, accounts payable and claims involving a guarantee being paid equal their book value, given that they mature in the near future.

6. GUARANTEE POLICIES

The guarantee policies issued by the Régie insure an amount representing the two largest monthly shipments of milk and cream from producers during the previous fiscal year. Policies in force as at March 31, 2004 totalled \$358 million (2003: \$380 million).

Further, in addition to guaranteeing the solvability of a dairy merchant, the Régie demanded additional conditions before issuing a guarantee policy. For new dairy merchants, those in financial straits and foreign companies, letters of guarantee or bonds issued by financial institutions, parent companies or subsidiaries were required. The value of these additional guarantees as at March 31, 2004 totalled \$0.5 M (2003: \$0.5 M).

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fonds d'assurance-garantie administered by the Régie des marchés agricoles et alimentaires du Québec as at March 31, 2004 and the statement of revenue and expenditure and Fund balance for the year then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fonds d'assurance-garantie as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Auditor General of Québec
Renaud Lachance, CA

Québec, July 28, 2004

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS
(R.S.Q., c. A-29.1)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004
(in thousand of dollars)

	<u>2004</u>	<u>2003</u>
REVENUE		
Insurance charges (Note 3)	14 638	13 328
Investment income (Note 4)	<u>5 369</u>	<u>4 014</u>
	20 007	17 342
EXPENDITURE		
Change in allowance for loan guarantees (Note 5)	<u>8 494</u>	<u>8 431</u>
EXCESS REVENUE OVER EXPENDITURE	11 513	8 911
SURPLUS, BEGINNING OF YEAR	<u>17 475</u>	<u>8 564</u>
SURPLUS, END OF YEAR	<u>28 988</u>	<u>17 475</u>

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

BALANCE SHEET
as at March 31, 2004
(in thousand of dollars)

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	50	
Caisse de dépôt et placement du Québec demand deposits	884	206
Investment income receivable	<u>421</u>	<u>305</u>
	1 355	511
Investments (Note 6)	<u>104 327</u>	<u>94 658</u>
	<u>105 682</u>	<u>95 169</u>
LIABILITIES		
Current liabilities		
Net gains deferred to the sale of investments (Note 7)	191	2 052
Gouvernement du Québec advance – interest-free and without repayment terms	10 000	10 000
Allowance for loan guarantees (Note 5)	<u>66 503</u>	<u>65 642</u>
	76 694	77 694
SURPLUS	<u>28 988</u>	<u>17 475</u>
	<u>105 682</u>	<u>95 169</u>

On behalf of the Board of Directors,
Norman Johnston, Acting President and Chief Executive Officer
Laurent Pellerin, Chairman of the Board

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS**CASH FLOWS**

for the year ended March 31, 2004
(in thousand of dollars)

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Excess revenue over expenditure	11 513	8 911
Elements not affecting cash flows:		
Change in allowance for loan guarantees	8 494	8 431
Amortization of realized and unrealized gains and losses on investments	(575)	254
Losses realized on investments	<u>(1 670)</u>	<u>(386)</u>
	17 762	17 210
Change in non-cash elements linked to operations:		
Investment income receivable	(116)	274
Repayment of loans to lenders	(7 969)	(5 442)
Recovery of losses	<u>336</u>	<u>547</u>
	(7 749)	(4 621)
Cash flows related to operating activities	<u>10 013</u>	<u>12 589</u>
INVESTMENT ACTIVITIES		
Investments:		
Acquisitions of participation deposits	(12 159)	(15 727)
Proceeds from disposal of participation deposits	<u>2 874</u>	<u>1 559</u>
Cash flows related to investment activities	<u>(9 285)</u>	<u>(14 168)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	728	(1 579)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	<u>206</u>	<u>1 785</u>
CASH AND CASH EQUIVALENTS, AT YEAR-END	<u><u>934</u></u>	<u><u>206</u></u>
Cash and cash equivalents at year-end include:		
	<u>2004</u>	<u>2003</u>
Cash	50	
Demand deposits	<u>884</u>	<u>206</u>
	<u>934</u>	<u>206</u>

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

(in thousand of dollars)

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Fonds d'assurance-prêts agricoles et forestiers was established under the Act respecting farm-loan insurance and forestry-loan insurance (R.S.Q., c. A-29.1). It guarantees a lender the repayment of losses in principal and interest resulting from a farm loan or a forestry loan granted on or after August 1, 1978 and of expenses allowable by regulation that are incurred by the lender to protect his securities or to claim or obtain from the defaulting debtor the sums owing to him or that have become payable on the loan.

2. ACCOUNTING POLICIES

The Fonds' financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Investments

Funds entrusted to the Caisse de dépôt et placement du Québec in participation deposits are recorded at cost plus an adjustment established according to the market-related value. This adjustment represents the annual fluctuations in the market value of these investments amortized at an annual rate of 8.33% using the straight-line method. This rate was established considering the average remaining loan period for secured loans.

Net gains deferred to the sale of investments

Gains and losses on participation deposits are recorded and amortized at an annual rate of 8.33% using the straight-line method. This rate was established considering the average remaining loan period for secured loans.

Allowance for loan guarantees

As a guarantor, the Fonds is exposed to the economic uncertainties and risks inherent in agriculture and forestry. Should the economic conditions used to estimate the required allowance change, the real losses on guaranteed loans might differ from the estimates made.

The general allowance is established using the loss discount method considering a failure rate, mean losses according to the duration of the term of each guaranteed loan at the fiscal year-end and an annual discount rate of 6%. This allowance includes a margin for unfavourable variances of 15% for long-term loans and 10% for short- and medium-term loans in keeping with Canadian Institute of Actuaries standards.

The specific allowance is established based on a case-by-case analysis of the loans insured as at March 31, 2004 for which the amount in arrears has been owing for more than 180 days or when circumstances make the possibility of one day collecting the capital and interest doubtful. The specific allowance represents the balance of the loan guarantee adjusted by the guarantees' realizable value.

Cash and cash equivalents

The Fonds' policy consists in presenting under cash and cash equivalents bank balances and short-term investments maturing within three months of the date they were acquired.

3. INSURANCE CHARGES

Insurance charges are paid by La Financière agricole du Québec for farm financing and by the Gouvernement du Québec for forestry financing. They correspond to 1.43% of the authorized amount of loans for which the first instalment was paid to the lender during the previous fiscal year and 1.25% of the balance of credit adjudication granted by the lender as at March 31 of the previous year.

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousand of dollars)

4. INVESTMENT REVENUES

	2004	2003
Interest on bank deposits	2	3
Interest on demand deposits	37	23
Revenue from participation deposits	5 330	3 988
	<u>5 369</u>	<u>4 014</u>

5. ALLOWANCE FOR LOAN GUARANTEES

	2004	2003
Opening balance	65 642	62 106
Reimbursement of losses to lenders	(7 969)	(5 442)
Recovery of losses	336	547
Change in allowance for loan guarantees	8 494	8 431
Closing balance	<u>66 503</u>	<u>65 642</u>

Closing balance breaks down as follows:

Specific allowance	15 693	14 574
General allowance	50 810	51 068
	<u>66 503</u>	<u>65 642</u>

The allowance for loan guarantees is established in relation to the overall portfolio of loans insured as at March 31, 2004, totalling \$4 286.4 million (2003: \$4 245.2 million). As at March 31, 2004, insured loans covered by a specific allowance amount to \$39 million (2003: \$35 million).

Insured loan guarantee

The duration of the guarantee corresponds to the remaining duration of the loans which breaks down as follows:

	2004	2003
Farm financing:		
less than 5 years	247 495	233 895
between 5 and 10 years	1 111 753	1 098 504
between 10 and 15 years	1 519 314	1 482 791
between 15 and 20 years	1 106 767	1 056 051
more than 20 years	238 352	318 859
	<u>4 223 681</u>	<u>4 190 100</u>
Forestry financing:		
less than 5 years	7 147	7 327
between 5 and 10 years	17 516	16 223
between 10 and 15 years	16 088	14 968
between 15 and 20 years	14 357	11 958
more than 20 years	7 623	4 624
	<u>62 731</u>	<u>55 100</u>
	<u>4 286 412</u>	<u>4 245 200</u>

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousand of dollars)

5. ALLOWANCE FOR LOAN GUARANTEES (cont'd)

The balances in principle and interest of insured loans, for which the Fonds reimburses the losses and pays the related fees, bear interest at the following rates:

	2004	2003
Farm financing:		
less than 3.9%	112 583	46 766
from 4% to 5.9%	2 488 929	1 784 802
more than 6%	997 384	1 431 920
variable rate set according to the terms and conditions of the financing program under which the loan was authorized based on fluctuations in the prime rate	624 785	926 612
	<u>4 223 681</u>	<u>4 190 100</u>
Forestry financing:		
from 3% to 4.9%	23 969	7 988
from 5% to 6.9%	21 783	24 836
more than 7%	7 738	11 110
variable rate set according to the terms and conditions of the financing program under which the loan was authorized based on fluctuations in the prime rate	9 241	11 166
	<u>62 731</u>	<u>55 100</u>
	<u>4 286 412</u>	<u>4 245 200</u>

The Fonds has certain recourses allowing it to recover, from third parties, amounts paid to lenders once the guarantee is enforced. The nature of the assets held as surety by the lenders comprises primarily farm or forestry harvesting units, dairy quotas and sureties. The Fonds covers the lender's residual loss. The fair value of the loan guarantee equals the overall provision, given that the latter is subject to actuarial analysis every four years and annual review.

6. INVESTMENTS

Participation deposits are invested in a specific Caisse de dépôt et placement du Québec fund according to La Financière agricole's investment policy and are expressed in units. These units are repayable with advance notice according to the terms of the Caisse's regulations, at the market value of the net equity of the specific fund at the end of each month. Demand deposits, presented separately from short-term assets, are also invested in a specific fund.

	2004	2003
Participation deposits:		
Cost of units	104 291	95 006
Cumulated adjustment of the difference between market value and acquisition cost	36	(348)
	<u>104 327</u>	<u>94 658</u>

At March 31, 2004, the market value of the 92 839 participation deposit units (2003: 84 264 participation deposit units) was \$108 937 M (2003: \$88 018 M).

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousand of dollars)

7. NET GAINS DEFERRED TO THE SALE OF INVESTMENTS

	2004	2003
Opening balance	2 052	2 769
Losses realized during the fiscal year	(1 670)	(386)
Amortization of realized gains and losses on investments	(191)	(331)
Closing balance	191	2 052

8. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, measured at exchange value, the Fonds is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Fonds did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. The main related party transaction was income from insurance fees in the amount of \$14 638 M (2003: \$13 328 M) received from La Financière agricole.

9. FINANCIAL INSTRUMENTS**Fair value**

The fair value of short-term financial instruments is equivalent to the fair book value, given that they mature in the near future. The fair value of the loan guarantee provision is equivalent to the book value, given that the provision is subject to actuarial analysis every four years and annual review. The fair value of the Gouvernement du Québec advance cannot reasonably be estimated, given the lack of a market.

Market risk

The Fonds is subject to economic conditions affecting the sectors in which it exercises its activities. The total value of the portfolio is divided among the following sectors:

Dairy production	54 %
Hog production	12 %
Grain production	9 %
Horticultural production	7 %
Beef production	5 %
Maple product production	4 %
Other	9 %

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS**MANAGEMENT'S REPORT**

The financial statements of the Fonds d'assurance-prêts agricoles et forestiers were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Fonds recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. At least every four years, the Fonds must perform an actuarial analysis of its operations and collate all information useful for setting insurance fee rates.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its responsibilities by the audit committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

For the Fonds d'assurance-prêts agricoles et forestiers,

Norman Johnston
Acting President and Chief Executive Officer

Sylvie Grondin, CGA
Vice-President, Corporate Affairs

Québec, May 21, 2004

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fonds d'assurance-prêts agricoles et forestiers as at March 31, 2004 and the statements of revenue and expenditure and surplus and cash flows for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management, and the financial statements' overall presentation.

In my opinion, these financial statements present, in all material respects, the Fonds' financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting policies principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 21, 2004

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC
(R.S.Q., c. D-9.1)

REVENUE AND EXPENDITURE
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u> (Note 3)
REVENUE		
Subsidies (Note 4)	\$81 358 370	\$85 817 781
Interest and other revenue (Note 5)	<u>1 863 066</u>	<u>1 523 446</u>
	83 221 436	87 341 227
SCHOLARSHIPS AND GRANTS AWARDED (Note 6)	79 075 107	79 285 365
OPERATING EXPENSES (Note 7)	<u>4 892 806</u>	<u>4 666 397</u>
(DEFICIENCY) EXCESS REVENUE OVER EXPENDITURE	<u>\$(746 477)</u>	<u>\$3 389 465</u>

SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
SURPLUS, BEGINNING OF YEAR		
Previously established balance	\$31 427	\$18 816
Adjustment (Note 3)		
Cancellation of carrying over of unappropriated government subsidy income	<u>4 157 523</u>	<u>780 669</u>
Adjusted balance	4 188 950	799 485
(DEFICIENCY) EXCESS REVENUE OVER EXPENDITURE	<u>(746 477)</u>	<u>3 389 465</u>
SURPLUS, END OF YEAR	<u>\$3 442 473</u>	<u>\$4 188 950</u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC**BALANCE SHEET**
as at March 31, 2004

	<u>2004</u>	<u>2003</u> (Note 3)
ASSETS		
Current assets		
Cash on hand	\$426 687	
Term deposits (1.95% to 3.15%)	12 842 500	\$15 379 195
Accrued interest	116 995	119 722
Accounts receivable (Note 9)	595 468	1 557 525
Prepaid expenses	<u>111 595</u>	<u>81 000</u>
	14 093 245	17 137 442
Fixed assets (Note 10)	<u>1 312 790</u>	<u>1 174 147</u>
	<u><u>\$15 406 035</u></u>	<u><u>\$18 311 589</u></u>
LIABILITIES		
Current liabilities		
Bank overdraft		\$206 920
Scholarships and grants payable (Note 11)	\$4 376 134	6 677 433
Accounts payable and accruals (Note 12)	531 662	821 173
Deferred revenue (Note 13)	<u>4 436 747</u>	<u>3 646 926</u>
	9 344 543	11 352 452
Deferred contributions	1 312 790	1 470 968
Special Research Fund (Note 14)	1 306 229	1 299 219
APPROPRIATED SURPLUS (Note 8)	<u>3 442 473</u>	<u>4 188 950</u>
	<u><u>\$15 406 035</u></u>	<u><u>\$18 311 589</u></u>
COMMITMENTS (Note 16)		

On behalf of the Board of Directors,
 Cherl L. Deal
 Alain Beaudet

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS**
March 31, 2004

1. CONSTITUTION AND PURPOSE

The Fonds de la recherche en santé du Québec is a corporation established under the Act to promote the advancement of science and technology in Québec (R.S.Q., c. D-9.1). Its purpose is to promote or provide financial support, through grants and scholarships, for research and for the training and advanced training of researchers in the field of health sciences. In addition, it implements the financial support programs that are under its authority pursuant to another act or, with the authorization of the Government and on the conditions it determines, the financial support programs under the authority of a Government department or public agency.

Under section 67 of the Act to promote the advancement of science and technology in Québec, the Fonds de la recherche en santé du Québec is an agent of the Gouvernement du Québec, and, as such, exempt from federal and provincial income tax.

2. ACCOUNTING POLICIES

The financial statements of the Fonds were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of changes in financial position is not shown as it would not provide any useful supplementary information regarding the Fonds' cash flow during the year.

Scholarships and grants awarded

Scholarships and grants are entered when they are approved and the recipients have met the eligibility criteria. Scholarships and grants that are cancelled or recovered are recorded in the year in which they were cancelled or recovered.

Fixed assets

Fixed assets are recorded at acquisition cost and depreciated on a straight-line basis applicable for the estimated duration of their service life, i.e. 5 years for furniture and equipment, 3 years for computer equipment and software and for the remainder of the lease for leasehold improvements.

Deferred revenue

Subsidies appropriated by the Government for the awarding of scholarships and grants and the implementation of the information systems review program are deferred and recognized during the fiscal year when the expenses to which they are related are incurred.

Deferred contributions

Contributions received for the Gouvernement du Québec for the acquisition of depreciable fixed assets are deferred and entered in the statement of revenue and expenditure on the same terms as the depreciation of the related fixed assets.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Fonds lacks sufficient information to apply the accounting procedure for defined-benefit plans.

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

3. CHANGE IN ACCOUNTING POLICY

As of the current fiscal year, the Fonds recorded as deferred income only the subsidies related to scholarships and grants on which there were appropriations of outside origin whereas, previously, all subsidies were deferred. The financial statements for the fiscal year ended March 31, 2003 were adjusted, thereby increasing (decreasing) the following items:

Deferred revenue	\$(4 157 523)
Revenue	3 376 854
Surplus	4 157 523

4. SUBSIDIES - SCHOLARSHIPS AND GRANTS

	2004	2003
Government		
Ministère du Développement économique et régional et de la Recherche	\$69 594 821	\$74 448 715
Régie de l'assurance maladie du Québec	8 400 000	8 400 000
Ministère des Affaires internationales du Québec	11 015	60 271
Ministère de la Santé et des Services sociaux du Québec	1 933 782	1 367 520
Société de l'assurance automobile du Québec	192 000	192 000
Institut de recherche Robert-Sauvé en santé et en sécurité du travail	75 000	20 000
Fonds québécois de la recherche sur la nature et les technologies	25 000	10 000
Fonds québécois de la recherche sur la société et la culture	746 250	808 495
Hôpital Douglas		191 000
Newton Foundation		25 000
Deferred contributions – Contribution for the acquisition of amortizable fixed assets	(617 981)	(514 940)
Deferred computer plan contributions		(249 983)
Deferred uncapitalized computer plan revenue – net change	82 405	(82 405)
Deferred contributions for computer plan capitalizable expenses – net change	297 346	362 506
Amortization of deferred contributions	478 813	382 814
	<u>81 218 451</u>	<u>85 420 993</u>
Other	<u>139 919</u>	<u>396 788</u>
	<u>\$81 358 370</u>	<u>\$85 817 781</u>

5. INTERESTS AND OTHER REVENUES

	2004	2003
Interest on bank and short-term deposits	\$753 472	\$547 194
Cancellations and recovery of scholarships and grants	712 328	560 444
Other	397 266	415 808
	<u>\$1 863 066</u>	<u>\$1 523 446</u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

6. SCHOLARSHIPS AND GRANTS AWARDED

	2004	2003
Subsidies for groups, centres, teams and research themes	\$45 026 422	\$46 905 946
Research fellowships and national health scientists	18 512 020	18 048 784
Project subsidies	5 996 792	6 303 032
Training grants	9 263 758	7 537 531
Partnerships	276 115	490 072
	<u>\$79 075 107</u>	<u>\$79 285 365</u>

7. OPERATING EXPENSES

	2004	2003
Salaries and fringe benefits	\$2 106 682	\$2 048 214
Professional fees	592 120	585 577
Travelling and accommodation expenses	284 088	201 469
Office space	542 799	421 549
Office expenses	428 271	455 624
Maintenance and repairs	460 033	571 150
Depreciation of furniture and equipment	44 803	23 464
Depreciation of data processing equipment and software	410 289	339 757
Amortization of leasehold improvements	23 721	19 593
	<u>\$4 892 806</u>	<u>\$4 666 397</u>

8. APPROPRIATED SURPLUS

The Fonds board of directors appropriated surpluses of \$3 442 473 at March, 31, 2004 (\$4 188 950 in 2003) related to the scholarships and grants that will be awarded over the coming fiscal year. The Fonds cannot use these amounts tied to appropriations of outside origins for other purposes without the board of director's prior consent. These appropriations break down as follows:

	2004	2003
Training scholarships	\$2 392 824	
Partner	392 820	
Recognition of the scientific performance of research centres and groups	228 734	
International component	40 000	
Networks		\$1 072 000
Scholarships and grants	388 095	1 132 958
National researchers		1 717 773
Operating costs		266 219
	<u>\$3 442 473</u>	<u>\$4 188 950</u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

9. ACCOUNTS RECEIVABLE

	2004	2003
Ministère du Développement économique et régional et de la Recherche	\$125 000	
Ministère des Finances, de l'Économie et de la Recherche		\$69 000
Fonds québécois de la recherche sur la nature et les technologies	122 023	817 584
Fonds québécois de la recherche sur la société et la culture	100 000	394 351
Ministère de la Santé et des Services sociaux du Québec		95 000
Other	248 445	181 590
	<u>\$595 468</u>	<u>\$1 557 525</u>

10. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net
Furniture and equipment	\$230 682	\$76 889	\$153 793
Leasehold improvements	217 587	57 220	160 367
Data processing equipment and software	1 842 731	844 101	998 630
	<u>\$2 291 000</u>	<u>\$978 210</u>	<u>\$1 312 790</u>
			<u>\$1 174 147</u>

Disbursements related to the acquisition of fixed assets totalled \$617 981 (2003: \$514 940). There were no proceeds from the sale of fixed assets in 2004 and 2003.

11. SCHOLARSHIPS AND GRANTS PAYABLE

	2004	2003
Fonds québécois de la recherche sur la société et la culture		\$81 259
Fonds québécois de la recherche sur la nature et les technologies		86 100
Other	\$4 376 134	6 510 074
	<u>\$4 376 134</u>	<u>\$6 677 433</u>

12. ACCOUNTS PAYABLE AND ACCRUALS

	2004	2003
Fonds québécois de la recherche sur la société et la culture	\$31 672	
Fonds québécois de la recherche sur la nature et les technologies	3 713	\$299 585
Other	496 277	521 588
	<u>\$531 662</u>	<u>\$821 173</u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

13. DEFERRED REVENUE

	2004	2003
Protected programs	\$3 047 281	\$2 230 145
Research centres	611 011	1 045 761
Computer plan		82 405
Support for health research in rural and semi-rural populations	360 000	
National emergency program	210 000	
Other	208 455	288 615
	<u>\$4 436 747</u>	<u>\$3 646 926</u>

14. SPECIAL RESEARCH FUND

This item represents amounts received from private firms for the establishment of a special research fund.

Under agreements, 86% of the interest generated by this fund shall be used for grants for research fellowships in pharmacology and hypertension. Also, 4% of the interest is paid to the Fonds de la recherche en santé du Québec as administrative expenses and the balance, i.e. 10%, is allocated to the capital.

The amounts are distributed as follows:

	2004	2003
Pharmacology		
Capital	\$451 515	\$449 691
Accumulated interest	228 024	212 340
	<u>679 539</u>	<u>662 031</u>
Hypertension		
Capital	543 792	542 053
Accumulated interest	82 898	95 135
	<u>626 690</u>	<u>637 188</u>
	<u>\$1 306 229</u>	<u>\$1 299 219</u>

**Changes in Fund balance
for the year ended March 31, 2004**

	2004	2003
Opening balance	\$1 299 219	\$1 266 881
Increase		
Interest on term deposits	35 630	33 686
Decrease		
Grants awarded	(27 196)	
Administrative expenses – Fonds de la recherche en santé du Québec	(1 424)	(1 348)
Closing balance	<u>\$1 306 229</u>	<u>\$1 299 219</u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

14. SPECIAL RESEARCH FUND (cont'd)

Balance sheet
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
Assets		
Current assets		
Cash on hand	\$13 753	\$17 071
Term deposits (2.65%)	<u>1 293 900</u>	<u>1 283 495</u>
	<u>\$1 307 653</u>	<u>\$1 300 566</u>
Liabilities		
Current liabilities		
Administrative expenses payable	\$1 424	\$1 347
Fund balance	<u>1 306 229</u>	<u>1 299 219</u>
	<u>\$1 307 653</u>	<u>\$1 300 566</u>

15. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its statements, and measured at exchange value, the Fonds is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Fonds did not conclude any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

16. COMMITMENTS

The Fonds is committed under long-term leases whose maturity dates vary until June 30, 2011 for administrative offices. These leases include a 10-year renewal option.

Lease payments for the year ended March 31, 2004 amount to \$520 085. The minimum lease payments for the next fiscal years are as follows:

2005	\$426 186
2006	495 838
2007	517 781
2008	549 344
2009	550 692
2010 and thereafter	<u>1 349 373</u>
	<u>\$3 889 214</u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

17. FUTURE FRINGE BENEFITS**Pension plan**

The staff members of the Fonds participate in the Government and Public Employees Retirement Plan (RREGOP) and the Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Fonds' contributions charged to the year-end statement amount to \$46 454 (2003: \$41 379). The liability of the Fonds towards these Government plans is restricted to its contributions as an employer.

18. FINANCIAL INSTRUMENTS**Bank borrowing**

At March 31, 2004, the Fonds had a guaranteed bank credit line of \$5 000 000. This credit line is guaranteed by current and future receivables resulting from subsidies receivable from the Ministère du Développement économique et régional et de la Recherche. Any amounts used bear interest at the prime rate plus 0.5% annually.

Fair value

The fair value of short-term financial instruments is equivalent to their book value, given that they mature in the near future.

19. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Fonds de la recherche en santé du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing the appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Fonds recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the finance committee, whose members are not management. The finance committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the finance committee to discuss any matter related to the audit.

Alain Beaudet
President and Chief Executive Officer

Claude Brouillette
Director, Administrative Services
and Assistant to the Chief Executive Officer

Montréal, May 31, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fonds de la recherche en santé du Québec as at March 31, 2004 and the statements of revenue and expenditure and surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 31, 2004

FONDS DES CAUTIONNEMENTS DES AGENTS DE VOYAGES
(R.S.Q., c. A-10)

INDIVIDUAL SECURITY
INVESTMENT LOSSES AND DEFICIT
for the fiscal years ended March 31, 2004

	2004	2003
Investment (losses) income	\$(157 460)	\$29 523
Cancellation of balance owing to Consolidated Revenue Fund	29 523	
INVESTMENT INCOME BALANCE TO PAY TO THE CONSOLIDATED REVENUE FUND		\$29 523
DEFICIT	\$(127 937)	

COLLECTIVE SECURITY
REVENUE AND EXPENDITURE AND DEFICIT
for the fiscal years ended March 31, 2004

	2004			2003		
	Retailers	Wholesalers	Total	Retailers	Wholesalers	Total
REVENUE						
Investment (losses) income	\$(147 020)	\$62 035	\$(84 985)	\$(9 214)	\$17 503	\$8 289
Additional contributions					1 510 000	1 510 000
Cancelled contributions (Note 3)	33 433	(44 904)	(11 471)	42 375	92 250	134 625
	(113 587)	17 131	(96 456)	33 161	1 619 753	1 652 914
EXPENDITURE						
Claims and trust charges	54 156	43 797	97 953	1 407 132	4 008 421	5 415 553
Administrative expenses – Gouvernement du Québec	43 571	5 779	49 350	36 984	5 143	42 127
Interest on long-term debt		368 014	368 014			
	97 727	417 590	515 317	1 444 116	4 013 564	5 457 680
EXCESS EXPENDITURE OVER REVENUE	(211 314)	(400 459)	(611 773)	(1 410 955)	(2 393 811)	(3 804 766)
(DEFICIT) SURPLUS BEGINNING OF YEAR	139 568	(5 464 876)	(5 325 308)	1 550 523	(3 071 065)	(1 520 542)
(DEFICIT) SURPLUS END OF YEAR	\$(71 746)	\$(5 865 335)	\$(5 937 081)	\$139 568	\$(5 464 876)	\$(5 325 308)

FONDS DES CAUTIONNEMENTS DES AGENTS DE VOYAGES

INDIVIDUAL SECURITY
BALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$1 196 020	\$1 131 197
Demand deposits in the General Fund of the Caisse de dépôts et placement du Québec – at cost	22 001	25 396
Investment revenue receivable	5 529	33 130
Accounts receivable		23 000
Bonds on deposit (Note 4) (fair value: 2004: \$25 380; 2003: \$35 665)	<u>25 000</u>	<u>35 000</u>
	1 248 550	1 247 723
Bonds on deposit (Note 4) (fair value: 2004: \$556 369; 2003: \$378 632)	550 158	370 623
Participation deposits in a specific fund of the Caisse de dépôt et placement du Québec (Note 5)	<u>954 383</u>	<u>1 090 026</u>
	<u>\$2 753 091</u>	<u>\$2 708 372</u>
 LIABILITIES		
Current liabilities		
Balance of investment revenue to be paid into the Consolidated Revenue Fund		\$29 523
Individual security of travel agents (Note 6)	\$2 881 028	2 678 849
DEFICIT	<u>(127 937)</u>	<u> </u>
	<u>\$2 753 091</u>	<u>\$2 708 372</u>

Yvan Turcotte
President of the Office de la
protection du consommateur

FONDS DES CAUTIONNEMENTS DES AGENTS DE VOYAGES

COLLECTIVE SECURITY
BALANCE SHEET (cont'd)
as at March 31

	2004			2003		
	Retailers	Wholesalers	Total	Retailers	Wholesalers	Total
ASSETS						
Current assets						
Cash on hand	\$56 061	\$156 628	\$212 689	\$196 736	\$1 592 145	\$1 788 881
Term deposits (rate: 1.90%)		1 700 000	1 700 000		2 500 000	2 500 000
Demand deposits in the General Fund of the Caisse de dépôt et placement du Québec – at cost	67 004		67 004	29 496		29 496
Investment revenue receivable	15 582	4 000	19 582	59 090	12 972	72 062
Accounts receivable	115 800	574 700	690 500	200 100	95 900	296 000
Additional contributions receivable		55 000	55 000		273 750	273 750
	<u>254 447</u>	<u>2 490 328</u>	<u>2 744 775</u>	<u>485 422</u>	<u>4 474 767</u>	<u>4 960 189</u>
Participation deposits in a specific fund of the Caisse de dépôt et placement du Québec (Note 5)	2 684 771		2 684 771	2 827 079		2 827 079
Basic contributions refunded in advance	<u>151 750</u>	<u>17 500</u>	<u>169 250</u>			
	<u>\$3 090 968</u>	<u>\$2 507 828</u>	<u>\$5 598 796</u>	<u>\$3 312 501</u>	<u>\$4 474 767</u>	<u>\$7 787 268</u>
LIABILITIES						
Current liabilities						
Claims and charge payable	\$12 517	\$17 745	\$30 262	\$20 800	\$1 957 821	\$1 978 621
Interest accrued on the long- term debt	<u>12 517</u>	<u>368 014</u>	<u>368 014</u>	<u>20 800</u>	<u>1 957 821</u>	<u>1 978 621</u>
Long-term debt (Note 7)		6 000 000	6 000 000		6 000 000	6 000 000
Basic contributions (Note 8)	3 150 197	1 987 404	5 137 601	3 152 133	1 981 822	5 133 955
(DEFICIT) SURPLUS	<u>(71 746)</u>	<u>(5 865 335)</u>	<u>(5 937 081)</u>	<u>139 568</u>	<u>(5 464 876)</u>	<u>(5 325 308)</u>
	<u>\$3 090 968</u>	<u>\$2 507 828</u>	<u>\$5 598 796</u>	<u>\$3 312 501</u>	<u>\$4 474 767</u>	<u>\$7 787 268</u>
CONTINGENCY (Note 11)						
SUBSEQUENT EVENT (Note 12)						

Yvan Turcotte
President of the Office de la
protection du consommateur

FONDS DES CAUTIONNEMENTS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

1. COMPOSITION AND OPERATION

The Travel Agents' Individual and Collective Security Funds consist of security in amounts determined by Government regulation under the Travel Agents Act (R.S.Q., c. A-10), and they are administered by the President of the Office de la protection du consommateur. The purpose of the security is to guarantee compliance with the Act and its regulations.

Investment revenue earned from cash deposited as individual security is paid into the Consolidated Revenue Fund. Interest coupons attached to bonds held on deposit remain the depositor's property and are returned to the depositor on request.

2. ACCOUNTING POLICIES

The Funds' financial statements were prepared by management in accordance with generally accepted accounting principles in Canada. These statements include amounts based on best judgments and estimates. The statement of cash flows is not shown as it would not provide any useful supplementary information regarding the Funds' cash flows during the year.

Bonds on deposit

Bonds deposited as individual security are shown at par value.

Participation deposits in the General Fund of the Caisse de dépôt et placement du Québec

Participation deposits are recorded at acquisition cost.

Administrative expenses

Administrative expenses, except those pertaining to investment, collection and disbursement activities and to fund operation accounting, are borne by the Gouvernement du Québec and are not charged to the Travel Agents' Security Funds.

3. CANCELLED CONTRIBUTIONS

Cancelled contributions represent, for travel agents having ceased their operations, basic contributions that were never claimed by the agents within the prescribed time frame and those for which consumer claims exceeded this contribution.

4. BONDS ON DEPOSIT

Acquisitions during the fiscal year ended March 31, 2004 amounted to \$219 035 (2003: \$143 123) and disposals to \$49 500 (2003: \$40 400).

5. PARTICIPATION DEPOSITS IN A SPECIFIC FUND OF THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

Participation deposits in a specific fund of the Caisse de dépôt et placement du Québec are expressed in units. Units may be refunded with prior notice in accordance with the terms of payment of the Caisse at the market value of the net equity of the fund at the end of each month.

FONDS DES CAUTIONNEMENTS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

**5. PARTICIPATION DEPOSITS IN A SPECIFIC FUND OF THE CAISSE DE DÉPÔT
ET PLACEMENT DU QUÉBEC (cont'd)**

	2004			
	Individual security	Collective security		
		Retailers	Wholesalers	Total
Number of units	978	3 094		3 094
Cost of units	\$954 383	\$2 684 771		\$2 684 771
Fair value of units at March 31	\$1 019 096	\$2 857 385		\$2 857 385
Fair value per unit at March 31	\$1 042	\$924		\$924

	2003			
	Individual security	Collective security		
		Retailers	Wholesalers	Total
Number of units	1 117	3 258		3 258
Cost of units	\$1 090 026	\$2 827 079		\$2 827 079
Fair value of units at March 31	\$812 802	\$2 353 285		\$2 353 285
Fair value per unit at March 31	\$728	\$722		\$722

For individual securities, there were no acquisitions in the two fiscal years and sales totalled \$135 643 (2003: none). The loss on the sale of participation deposit units was \$9 540.

For collective retailers' securities, there were no acquisitions in the two fiscal years and sales totalled \$142 308 (2003: \$1 465 604). The loss on the sale of participation deposit units was \$2 878 (2003: \$115 805).

For collective wholesalers' securities, there were no acquisitions in the two fiscal years and no securities were sold in the fiscal year ended March 31, 2004 (2003: acquisition of \$184 863 and a loss on sale of \$5 234).

FONDS DES CAUTIONNEMENTS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

6. INDIVIDUAL SECURITY OF TRAVEL AGENTS

	2004	2003
Opening balance	\$2 678 849	\$1 992 726
Security deposited	644 305	1 078 523
	<u>3 323 154</u>	<u>3 071 249</u>
Claims and trust fees	(48 483)	(12 000)
Security refunded	(83 643)	(255 400)
Bonds returned and replaced by Individual guarantee policies	<u>(310 000)</u>	<u>(125 000)</u>
	<u>(442 126)</u>	<u>(392 400)</u>
Closing balance	<u><u>\$2 881 028</u></u>	<u><u>\$2 678 849</u></u>

Security provided by travel agents in the form of individual guarantee policies is estimated at \$27 157 500 as at March 31, 2004 (\$28 110 000 as at March 31, 2003) with \$22 327 500 having a valid permit as at March 31, 2004 (\$22 620 000 as at March 31, 2003). This estimate includes guarantee policies from agencies that have ceased operations within the last two years and are thus still liable for claims.

7. LONG-TERM DEBT

	2004	2003
Gouvernement du Québec advance, bearing interest at the National Bank of Canada prime rate, expiring in March 2009	<u>\$6 000 000</u>	<u>\$6 000 000</u>

The interest payment on the long-term debt of \$368 014 includes interest of \$101 589 for the fiscal year ended March 31, 2003. Then financial statements for 2003 were not adjusted, given that the conditions of the advance were defined only on November 4, 2003.

8. BASIC CONTRIBUTIONS – COLLECTIVE SECURITY

	2004	2003
Retailers		
Opening balance	\$3 152 133	\$3 270 041
Contributions received	214 524	191 750
Contributions refunded	(183 027)	(267 283)
Cancelled contributions transferred to revenue	<u>(33 433)</u>	<u>(42 375)</u>
Closing balance	<u><u>\$3 150 197</u></u>	<u><u>\$3 152 133</u></u>

FONDS DES CAUTIONNEMENTS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

8. BASIC CONTRIBUTIONS – COLLECTIVE SECURITY (cont'd)

	<u>2004</u>	<u>2003</u>
Wholesalers		
Opening balance	\$1 981 822	\$2 055 586
Contributions received	109 000	162 250
Contributions refunded	(148 322)	(143 764)
Cancelled contributions transferred to revenue	<u>44 904</u>	<u>(92 250)</u>
Closing balance	<u><u>\$1 987 404</u></u>	<u><u>\$1 981 822</u></u>

9. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future. The fair value of the long-term debt for collective securities is equal to their book value.

10. RELATED PARTY TRANSACTIONS

In addition to the transactions with the Consolidated Revenue Fund disclosed in its financial statements and recorded at exchange value, the Fund is a related party to all departments and special funds as well as to agencies and enterprises which are controlled directly or indirectly by the Gouvernement du Québec or are subject to either joint control or significant influence by it. The Fund did not carry out any business transactions with these related parties other than during the normal course of its activities and under normal business conditions. These transactions are not shown separately in the financial statements.

11. CONTINGENCY

A collective claim was tabled in the Superior Court on October 9, 2002 against a retailer and a wholesaler for approximately \$2.5 M. The amount of the loss the Fund might eventually sustain cannot reasonably be estimated. Consequently, no provision was recorded.

12. SUBSEQUENT EVENT

On November 11, 2004, the Regulation amending the Regulation respecting travel agents came into effect. This new regulation establishes the Fonds d'indemnisation des clients des agents de voyages, an indemnity fund designed to guarantee compensation or refunds to travel agent customers. Under this new regulation, the basic contribution to the Fonds des cautionnements collectifs will be reimbursed within five years.

FONDS DES CAUTIONNEMENTS DES AGENTS DE VOYAGES**MANAGEMENT'S REPORT**

The financial statements of the Fonds des cautionnements collectifs des agents de voyages were drawn up by management, which is responsible for their preparation and presentation, as well as for the significant estimates and judgments included therein. This responsibility involves choosing appropriate accounting policies that comply with generally accepted accounting principles in Canada.

In accordance with its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are recorded properly and in a timely manner, are duly approved and can be used to prepare accurate financial statements.

The Funds' management recognizes that it is responsible for conducting its affairs in accordance with the laws and regulations that govern it.

The Auditor General of Québec has conducted an audit of the Fund's financial statements in accordance with generally accepted auditing standards in Canada, and his report states the nature and scope of his audit as well as his opinion. The Auditor General may, without restriction, meet with management to discuss any matter concerning his audit.

André Derome
Coordinator, Licensing Department

Québec, November 25, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheets of the Fonds des cautionnements individuels and the Fonds des cautionnements collectifs des agents de voyages as at March 31, 2004 and the statements of investment losses and deficit of the Fonds des cautionnements individuels and revenue and expenditures of the Fonds des cautionnements collectifs for the fiscal year then ended. These financial statements are the responsibility of the President of the Office de la protection du consommateur. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Canada. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of these Funds as at March 31, 2004, and the results of their operations and their cash flows for the years then ended in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, November 25, 2004

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER
(R.S.Q., c. C-73.1)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended December 31, 2003

	<u>2003</u>	<u>2002</u>
REVENUE		
Dues	\$209 410	\$196 480
Investment income	303 483	265 244
Indemnities (Note 4)	<u>41 000</u>	<u>100 710</u>
	<u>553 893</u>	<u>562 434</u>
EXPENDITURE		
Management fees	89 242	86 500
Professional fees	13 151	32 217
Travel and accommodation expenses	8 263	7 649
Directors' fees	5 962	5 725
Publications	10 354	11 536
Office expenses	8 584	7 770
Communication and public relations	<u>45 852</u>	<u>5 000</u>
	<u>181 408</u>	<u>156 397</u>
EXCESS REVENUE OVER EXPENDITURE	372 485	406 037
SURPLUS, BEGINNING OF YEAR	<u>4 563 183</u>	<u>4 157 146</u>
SURPLUS, END OF YEAR	<u><u>\$4 935 668</u></u>	<u><u>\$4 563 183</u></u>

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIERBALANCE SHEET
as at December 31, 2003

	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets		
Cash on hand	\$94 523	\$81 331
Investments	4 807 547	4 487 896
Accounts receivable	172 097	154 315
Accrued interest	59 294	68 797
Prepaid expenses	<u>4 804</u>	<u>4 804</u>
	<u>\$5 138 265</u>	<u>\$4 797 143</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$24 717	\$30 010
Revenue collected in advance	177 880	162 950
Allowance for indemnities (Note 4)	<u>202 597</u>	<u>41 000</u>
	202 597	233 960
SURPLUS (Note 5)	<u>4 935 668</u>	<u>4 563 183</u>
	<u>\$5 138 265</u>	<u>\$4 797 143</u>

On behalf of the Board of Directors,
 Raymond Desbiens, Vice-chairman of the Board
 Lise Légaré, Treasurer

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER

NOTES TO FINANCIAL STATEMENTS December 31, 2003

1. CONSTITUTION AND PURPOSE

The Fonds d'indemnisation du courtage immobilier was established under the Real Estate Brokerage Act (R.S.Q., c. C-73.1) to administer a fund to guarantee the liability that may be incurred by a broker or an agent owing to fraud, dishonest transactions, or misappropriation of funds or other property to be held in a trust account.

The Fonds is constituted, in part, of dues paid by members of the Association des courtiers et agents immobiliers du Québec.

2. ACCOUNTING POLICIES

The financial statements of the Fonds were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of financial position is not shown as it would not provide any useful additional information regarding the Fonds' cash flow during the year.

Investments

Bonds are entered at amortized cost. Discounts and premiums are amortized according to the straight-line method over the remaining term of each bond certificate. Amortization of bond discounts and premiums is entered as investment income.

3. FINANCIAL INSTRUMENTS

At December 31, 2003, the market value of investments was \$5 255 190 (December 31, 2002: \$4 829 039). These investments bear interest at rates varying between 3.3% and 9.5%.

The fair value of the other financial instruments is equivalent to their book value, given that they mature in the near future.

4. PROVISION FOR CLAIMS

The Fonds' policy, on receiving a duly sworn claim, is to provide for the amount claimed to a maximum of \$15 000 and to maintain the provision until the board of directors' final decision.

	2003	2002
Opening balance	\$41 000	\$148 960
Payments for the year		7 250
	<u>41 000</u>	<u>141 710</u>
Provision for claim for the year		11 000
Cancellation of claims from past years	<u>(41 000)</u>	<u>(111 710)</u>
	<u>(41 000)</u>	<u>(100 710)</u>
Closing balance	<u><u> </u></u>	<u><u>\$41 000</u></u>

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER

NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003

5. SURPLUS

Pursuant to the Regulation respecting the Fonds d'indemnisation du courtage immobilier, the Minister responsible for the administration of the Real Estate Brokerage Act may authorize the Fonds' board of directors to utilize, under certain conditions, interest yielded on the sums of money constituting the Fonds for purposes related to brokerage and promoting public protection. At December 31, 2003, the surplus, which includes all interest earned since the establishment of the Fonds, amounts to \$2 569 478 (December 31, 2002: \$2 265 996).

6. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, the Fonds is a related party to all government, departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Fonds did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

7. COMPARATIVE FIGURES

Certain 2002 figures were reclassified for consistency with the presentation adopted in 2003.

MANAGEMENT'S REPORT

The financial statements of the Fonds d'indemnisation du courtage immobilier were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Fonds recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Claudie Tremblay
Fund Secretary

Richard Cardinal
Fund Comptroller

Montréal, February 25, 2004

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Fonds d'indemnisation du courtage immobilier as at December 31, 2003 and the statement of revenue and expenditure and surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at December 31, 2003 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, February 25, 2004

FONDS DU RÉGIME TRIPARTITE D'ASSURANCE REVENU BRUT À L'ÉGARD DES RÉCOLTES
(R.S.Q., c. A-29.1)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004
(in thousand of dollars)

	<u>2004</u>	<u>2003</u>
REVENUE		
Interest	412	396
EXPENDITURE	<u> </u>	<u> </u>
EXCESS REVENUE OVER EXPENDITURE	412	396
OPENING SURPLUS	<u>13 893</u>	<u>13 745</u>
	14 305	14 141
Interest distributed (Note 1)	<u>(257)</u>	<u>(248)</u>
CLOSING SURPLUS	<u><u>14 048</u></u>	<u><u>13 893</u></u>

FONDS DU RÉGIME TRIPARTITE D'ASSURANCE REVENU BRUT À L'ÉGARD DES RÉCOLTES

BALANCE SHEET
as at March 31, 2004
(in thousand of dollars)

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	104	53
Short-term investments		5 300
Accrued interest		12
Owed by La Financière agricole (Note 3)	<u>14 001</u>	<u>8 605</u>
	<u>14 105</u>	<u>13 970</u>
 LIABILITIES		
Current liabilities		
Owing to the Fédération des producteurs de cultures commerciales du Québec	57	77
SURPLUS (Note 1)	<u>14 048</u>	<u>13 893</u>
	<u>14 105</u>	<u>13 970</u>

On behalf of the Board of Directors,
Norman Johnston, Acting President and Chief Executive Officer
Laurent Pellerin, Chairman of the Board

FONDS DU RÉGIME TRIPARTITE D'ASSURANCE REVENU BRUT À L'ÉGARD DES RÉCOLTES

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

(in thousand of dollars)

1. CONSTITUTION AND PURPOSE

The Fonds du Régime tripartite d'assurance revenu brut à l'égard des récoltes was established by a federal/provincial agreement.

The Tripartite Gross Crop Income Insurance Plan Fund's application ended with the 1995 crop year. An agreement expiring on March 31, 2004 between the Canadian and Québec governments stipulates that the interest generated by Fonds management and the Fonds surplus be shared. This same agreement states that the interest earned by the federal government be remitted on a quarterly basis to the Fédération des producteurs de cultures commerciales du Québec. Since May 1, 2001, only the federal government and Gouvernement du Québec shares remain in the Fonds. When La Financière agricole was created the Gouvernement du Québec agreed to transfer its capital share of \$4.7 million plus interest to it.

2. ACCOUNTING POLICIES

The Fonds' financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of cash flows is not shown as it would not provide any useful supplementary information regarding the Fonds' cash flows during the year.

Short-term investments

Short-term investments are recorded at cost or market value, whichever is less.

3. ACCOUNT RECEIVABLE FROM LA FINANCIÈRE AGRICOLE

	2004	2003
Interest earned	1	5
Advance bearing interest at a rate of 2.2%, maturing April 30, 2004	14 000	8 600
	<u>14 001</u>	<u>8 605</u>

4. RELATED PARTY TRANSACTIONS

The main related party transaction was as follows:

	2004	2003
Interest income:		
La Financière agricole du Québec	358	64
Le Fonds d'assurance-stabilisation des revenus agricoles		7

In addition to the related party transactions disclosed in its financial statements, measured at exchange value, the Fonds is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Fonds did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These operations have not been disclosed separately in the financial statements.

5. FINANCIAL INSTRUMENTS

The fair value of financial instruments is equivalent to their book value, given the fact that they mature in the near future.

FONDS DU RÉGIME TRIPARTITE D'ASSURANCE REVENU BRUT À L'ÉGARD DES RÉCOLTES

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousand of dollars)

6. SUBSEQUENT EVENT

Since April 1, 2004, the agreement between the Government of Canada and the Gouvernement du Québec is no longer in effect. The parties must agree on use of the federal share of the Fonds.

MANAGEMENT'S REPORT

The financial statements of the Fonds du Régime tripartite d'assurance revenu brut à l'égard des récoltes (Tripartite Gross Crop Income Insurance Fund) were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Fonds du Régime tripartite d'assurance revenu brut à l'égard des récoltes recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it and the Canada-Québec Agreement.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its responsibilities by the audit committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

For the Fonds du Régime tripartite d'assurance revenu brut
à l'égard des récoltes (Tripartite Gross Crop Income Insurance Fund),

Norman Johnston
Acting President and Chief Executive Officer

Sylvie Grondin, CGA
Vice-President, Corporate Affairs

Québec, May 21, 2004

FONDS DU RÉGIME TRIPARTITE D'ASSURANCE REVENU BRUT À L'ÉGARD DES RÉCOLTES**AUDITOR'S REPORT**

To the National Assembly,

I have audited the balance sheet of the Fonds du Régime tripartite d'assurance revenu brut à l'égard des récoltes (Tripartite Gross Crop Income Insurance Fund) as at March 31, 2004 and the statements of revenue and expenditure and surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management, and the financial statements' overall presentation.

In my opinion, these financial statements present, in all material respects, the Fonds' financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting policies principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 21, 2004

FONDS EN FIDÉICOMMIS
(R.S.Q., c. D-5)

BALANCE SHEET
as at March 31, 2004
(in thousand of dollars)

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash on hand	1 623	2 407
Securities held		
Bond holders	14 985	74 402
Treasury bills	1 753	1 873
Advances to the Consolidated Revenue Fund, interest-free, no terms of repayment	<u>393 299</u>	<u>382 553</u>
	<u>411 660</u>	<u>461 235</u>
LIABILITIES		
Deposits		
Goods and services tax	<u>307 769</u>	<u>310 301</u>
Deposits, guarantees, etc.		
Corporations, organizations and individuals	25 283	84 278
Officers of the law	68 570	57 157
Municipalities	<u>10 038</u>	<u>9 499</u>
	<u>103 891</u>	<u>150 934</u>
	<u>411 660</u>	<u>461 235</u>

François Tardif
Administrator, Fonds en fidéicommis

Gilles Godbout
Deputy Minister of Finance

FONDS EN FIDÉICOMMIS

CHANGE IN DEPOSITS
for the fiscal year ended March 31, 2004
(in thousand of dollars)

	Balance at March 31, 2003	Increase	Decrease	Balance at March 31, 2004
Goods and services tax	310 301	12 419 510	12 422 042	307 769
Deposits, guarantees, etc.				
Corporations, organizations and individuals	84 278	87 078	146 073	25 283
Officers of the law	57 157	170 469	159 056	68 570
Municipalities	9 499	7 233	6 694	10 038
	150 934	264 780	311 823	103 891
	461 235	12 684 290	12 733 865	411 660

FONDS EN FIDÉICOMMIS

NOTES TO FINANCIAL STATEMENT

March 31, 2004

(in thousand of dollars)

1. NATURE OF THE FONDS EN FIDÉICOMMIS AND ADMINISTRATIVE POLICIES

The Fonds en fidéicommis comprises:

- amounts of money and securities held for the purposes of deposits, sureties, guarantees, etc. paid under statutes, regulations, guidelines and agreements by corporations, organizations, individuals, officers of the law and municipalities. These deposits are made with the Ministère des Finances, which is a general deposit office under the Deposit Act (R.S.Q., c. D-5);
- amounts paid and credited for inputs administered for the Government of Canada as goods and services tax under an agreement with the Gouvernement du Québec.

Income from the securities held is remitted directly to the depositors of these securities and the administrative expenses of the Fonds are paid by the Consolidated Revenue Fund. These transactions are not presented in the financial statements.

2. ACCOUNTING POLICIES

The financial statements were prepared by management in keeping with the accounting principles generally recognized in Canada.

The securities held are presented at face value since they are remitted to the depositors at this value.

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fonds en fidéicommis as at March 31, 2004 and the statement of change in deposits for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fonds en fidéicommis as at March 31, 2004 and the change in deposits for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

For the Acting Auditor General of Québec
 Marc Ouellet, CA
 Principal Administrator

Québec, June 28, 2004

FONDS NATIONAL DE FORMATION DE LA MAIN-D'ŒUVRE
(R.S.Q., c. D-7.1)

INCOME AND ACCUMULATED SURPLUS
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
REVENUE		
Employer contributions (Note 3)	48 852	41 481
Interest	1 228	1 080
Fees and charges	<u>789</u>	<u>903</u>
	<u>50 869</u>	<u>43 464</u>
EXPENDITURE		
Subsidies to employers	26 726	41 716
Management fees (Note 4)	5 235	6 142
Contribution collection fees	721	703
Promotion and advertising	11	36
Depreciation of fixed assets	6	7
Amortization of deferred expenses	<u>31</u>	<u>31</u>
	<u>32 699</u>	<u>48 635</u>
ANNUAL SURPLUS (DEFICIT)	18 170	(5 171)
ACCUMULATED SURPLUS, BEGINNING OF YEAR	<u>68 995</u>	<u>74 166</u>
ACCUMULATED SURPLUS, END OF YEAR	<u>87 165</u>	<u>68 995</u>

FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE

BALANCE SHEET
as at March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Advance from the Consolidated Revenue Fund (Note 5)	57 492	47 279
Employer contributions receivable	33 348	26 725
Accounts receivable (Note 6)	<u>263</u>	<u>283</u>
	91 103	74 287
Fixed assets (Note 7)	<u>2</u>	<u>8</u>
	<u>91 105</u>	<u>74 295</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	3 940	5 300
ACCUMULATED SURPLUS	<u>87 165</u>	<u>68 995</u>
	<u>91 105</u>	<u>74 295</u>
COMMITMENTS (Note 8)		

Marjolaine Loiselle
Acting Associate Deputy Minister - Emploi-Québec
Ministère de l'Emploi, de la Solidarité sociale et de la Famille

François Turenne
Deputy Minister
Ministère de l'Emploi, de la Solidarité sociale et de la Famille

FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Fonds national de formation de la main-d'oeuvre was established under the Act to foster the development of manpower training (R.S.Q., c. D-7.1). Its purpose is to promote and support measures and initiatives related to manpower training.

2. ACCOUNTING POLICIES

The Fonds' financial statements were prepared in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best judgements and estimates. The cash flow statement is not shown as it would not provide any useful supplementary information regarding the Fonds' cash position during the year.

Employer contributions

Under the Act to foster the development of manpower training, employers are required to pay a contribution to the Fonds national de formation de la main-d'oeuvre, corresponding to the difference between the minimum participation and eligible training expenditures for the calendar year. These employer contributions, which are collected by the Minister of Revenue on behalf of the Fonds, are recorded on the basis of the amount reported by the employers for the preceding calendar year and are subject to audit and adjustment. Where applicable, adjustments are posted to employer contribution revenue during the fiscal year in which they are known.

Employer subsidies

Subsidies related to the resource allocation plan of the Fonds national de formation de la main-d'oeuvre are recorded when they are authorized by the Fonds and when employers have met the eligibility criteria defined in the agreements, where applicable.

Fixed assets

Fixed assets are recorded at cost and amortized based on their useful life using the straight-line method over a period of:

Data processing equipment	3 years

3. EMPLOYER CONTRIBUTIONS

	2004	2003
Amount declared for the year	33 373	25 988
Amount related to previous years	15 479	15 493
	<u>48 852</u>	<u>41 481</u>

4. MANAGEMENT FEES

As stipulated in the Act to foster the development of manpower training, the Commission des partenaires du marché du travail restricted the amounts that could be taken from the Fonds for remuneration and expenses related to fringe benefits and other working conditions of employees involved in the application of chapters II and III of the Act. The amounts correspond to the salaries and fringe benefits of 75 FTEs for the fiscal year ended March 31, 2004 (90 in 2003). These individuals are responsible for the information, promotion and enforcement of the Act and its regulations and for the administration of the Fund.

Management fees received free of charge from the Ministère de l'Emploi et de la Solidarité sociale et de la Famille are not presented in the Fonds' financial statements.

FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

5. ADVANCE FROM THE CONSOLIDATED REVENUE FUND

The advance bears interest at the reduced bank prime rate of 2.5% and includes no terms and conditions of repayment.

6. ACCOUNTS RECEIVABLE

	2004	2003
Interest receivable – Consolidated Revenue Fund	260	265
Labour Market Development Fund		9
Other	3	9
	<u>263</u>	<u>283</u>

7. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net
Data processing equipment	<u>24</u>	<u>22</u>	<u>2</u>
			<u>8</u>

8. COMMITMENTS

The Fonds committed to providing financial support for projects designed to promote and support the manpower training measures and initiatives. The balance of commitments at March 31, 2004 was \$15 359 197 (\$28 934 155 at March 31, 2003).

9. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, the Fonds is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Fonds did not carry out business with these related parties other than during the normal course of its activities and under normal business conditions. These transactions are not shown separately in the financial statements.

10. FINANCIAL INSTRUMENTS

The fair value of the financial instruments recorded in the financial statement (short-term assets and liabilities) is equivalent to their book value given that they mature in the near future.

FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE**MANAGEMENT'S REPORT**

The financial statements of the Fonds national de formation de la main-d'oeuvre were drawn up by Fonds' management, which is responsible for their preparation, presentation and significant judgements and estimates. This responsibility includes the choice of accounting policies that comply with the accounting principles that are generally accepted in Canada.

To fulfil its mandate, the management maintains a system of internal accounting controls designed to give reasonable assurance that assets are safeguarded and that the transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

Fonds management recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Fonds' financial statements, in accordance with the auditing standards generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, to meet with the Fonds' management to discuss any matter related to the audit.

Marjolaine Loiselle
Acting Associate Deputy Minister - Emploi-Québec
Ministère de l'Emploi, de la Solidarité sociale et de la Famille

François Turenne
Deputy Minister
Ministère de l'Emploi, de la Solidarité sociale et de la Famille

Québec, June 15, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fonds national de formation de la main-d'oeuvre as at March 31, 2004 and the statement of income and accumulated surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding fiscal year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 15, 2004

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES
(R.S.Q., c. M-30.01)

REVENUE AND EXPENDITURE
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u> (Note 3)
SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES (Note 4)		
Research grants	\$26 940 958	\$29 354 495
Scholarships	9 128 555	9 660 226
Operations	<u>3 334 617</u>	<u>3 696 585</u>
	39 404 130	42 711 306
INTEREST AND OTHER REVENUE	<u>1 167 034</u>	<u>1 388 211</u>
	<u>40 571 164</u>	<u>44 099 517</u>
GRANTS AND SCHOLARSHIPS AWARDED		
Research grants	33 848 917	29 676 988
Scholarships	<u>9 162 110</u>	<u>10 608 309</u>
	<u>43 011 027</u>	<u>40 285 297</u>
	(2 439 863)	3 814 220
OPERATING EXPENSES (Note 5)	<u>4 916 885</u>	<u>5 214 243</u>
EXCESS EXPENDITURE OVER REVENUE	<u><u>\$(7 356 748)</u></u>	<u><u>\$(1 400 023)</u></u>

SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPENING BALANCE		
Previously established balance	\$3 973 541	\$3 851 754
Adjustment (Note 3)		
Cancellation of carrying over of unappropriated government subsidy income	<u>5 819 730</u>	<u>7 341 540</u>
Adjusted balance	9 793 271	11 193 294
Excess expenditure over revenue	<u>(7 356 748)</u>	<u>(1 400 023)</u>
CLOSING BALANCE (Note 6)	<u><u>\$2 436 523</u></u>	<u><u>\$9 793 271</u></u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

BALANCE SHEET
as at March 31, 2004

	2004	2003 (Note 3)
ASSETS		
Current assets		
Cash on hand	\$936 290	\$3 210 260
Term deposit (2.35%, maturing April 2, 2004)	2 500 000	10 000 000
Accrued interest	8 676	28 407
Subsidies and other accounts receivable (Note 7)	4 490 794	6 451 275
Prepaid expenses	80 750	68 185
	<u>8 016 510</u>	<u>19 758 127</u>
Sums held on behalf of granting agencies (Note 8)	2 465 285	3 243 355
Fixed assets (Note 9)	<u>1 356 521</u>	<u>1 147 208</u>
	<u>\$11 838 316</u>	<u>\$24 148 690</u>
LIABILITIES		
Current liabilities		
Grants and scholarships payable (Note 10)	\$388 524	\$4 845 337
Accounts payable et accruals (Note 11)	709 964	2 658 381
Deferred subsidies from agencies	5 598 704	3 265 322
Deferred government subsidies	235 823	335 485
	<u>6 933 015</u>	<u>11 104 525</u>
Amounts payable on behalf of granting agencies (Note 8)	<u>2 468 778</u>	<u>3 250 894</u>
	9 401 793	14 355 419
SURPLUS (Note 6)	<u>2 436 523</u>	<u>9 793 271</u>
	<u>\$11 838 316</u>	<u>\$24 148 690</u>

COMMITMENTS (Note 12)

On behalf of the Board of Directors,
Sylvie Dillard
Christine Gagnon

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

1. CONSTITUTION AND PURPOSE

The Fonds québécois de la recherche sur la nature et les technologies was established under the Act respecting the Ministère du Développement économique et régional et de la Recherche (R.S.Q., c. M-30.01). The purpose of the Fonds is to promote and provide financial assistance for research and dissemination of knowledge in the natural sciences, mathematics and engineering; for research training by granting proficiency scholarships to graduate students and individuals conducting post-graduate research, professional development scholarships to those wishing to re-enter research circles and subsidies to enable college professors involved in research activities to reduce their teaching load. Further, the Fonds manages, for itself, for the Fonds de la recherche en santé du Québec and for the Fonds québécois de la recherche sur la société et la culture, graduate student scholarships programs and subsidy programs designed to release professors from their teaching duties. It establishes all necessary partnerships, notably with universities, colleges, the industry, government departments and the public and private organizations concerned.

Under section 48 of the above-mentioned Act, the Fonds québécois de la recherche sur la nature et les technologies is an agent of the Gouvernement du Québec. As such, it is not subject to income tax.

2. ACCOUNTING POLICIES

The financial statements of the Fonds were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of changes in financial position is not shown, as it would not provide any useful additional information regarding the Fonds' cash flow during the year.

Subsidies from the Gouvernement du Québec and other agencies

Subsidies from the Gouvernement du Québec and other agencies are accounted for as products of the fiscal year during which the related expenses were incurred.

Grants and scholarships awarded

Grants and scholarships are recorded once they have been authorized and the recipients have met the eligibility criteria. Cancellations or reimbursement of grants and scholarships awarded are recorded in the fiscal year in which they are cancelled or reimbursed.

Fixed assets

Fixed assets are recorded at cost and amortized over the duration of their service life using the straight-line method at the following rates:

	Rate
Office furniture and equipment	20%
Data processing equipment	33 1/3%
Leasehold improvements	20%
Data processing development	20%

3. CHANGE IN ACCOUNTING POLICY

As of the current fiscal year, the Fonds records as deferred government subsidies only the subsidies related to scholarships and grants on which there were appropriations of outside origin whereas, previously, all research scholarships and grants were deferred. The financial statements for the fiscal year ended March 31, 2003 were adjusted, thereby increasing (decreasing) the following items:

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

3. CHANGE IN ACCOUNTING POLICY (cont'd)

	2003
Surplus for the fiscal year	\$(1 521 810)
Deferred subsidies from agencies	(5 618 010)
Deferred government subsidies	(201 720)
Surplus	5 819 730

4. SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES

	2004	2003
Ministère du Développement économique et régional et de la Recherche:		
Research grants	\$24 163 448	\$26 785 545
Scholarships	9 128 555	9 660 226
Operations	2 115 561	2 408 035
	<u>35 407 564</u>	<u>38 853 806</u>
Other departments and agencies:		
Research grants	2 777 510	2 568 950
Operations:		
Fonds	369 190	415 832
Partnership projects (CANTOR)	849 866	872 718
	<u>3 996 566</u>	<u>3 857 500</u>
	<u>\$39 404 130</u>	<u>\$42 711 306</u>

5. OPERATING EXPENSES OF THE FONDS

	2004	2003
Salaries		
Wages	\$2 770 643	\$2 666 460
Training and professional development	12 132	32 465
Professional dues	799	2 246
	<u>2 783 574</u>	<u>2 701 171</u>
Services		
Fees	469 775	1 097 098
Lease		
Rent	192 444	177 806
Insurance	5 432	3 655
Maintenance and repairs	106 668	21 487
Location	20 240	14 030
	<u>324 784</u>	<u>216 978</u>
Communications	<u>84 994</u>	<u>91 120</u>
Transportation and accommodations	<u>325 963</u>	<u>273 947</u>
Amounts carried forward	<u>\$3 989 090</u>	<u>\$4 380 314</u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

5. OPERATING EXPENSES OF THE FONDS (cont'd)

	2004	2003
Amounts brought forward	<u>\$3 989 090</u>	<u>\$4 380 314</u>
Other expenses		
Telecommunications	69 514	57 600
Photocopies	26 897	21 483
Mailing costs	35 006	27 315
Office expenditures	42 182	43 229
Other expenses	7 547	11 241
Financial charges	<u>62</u>	<u>23 574</u>
	<u>181 208</u>	<u>184 442</u>
Fixed assets		
Purchase of uncapitalized goods		125 995
Amortization	<u>746 587</u>	<u>523 492</u>
	<u>746 587</u>	<u>649 487</u>
	<u><u>\$4 916 885</u></u>	<u><u>\$5 214 243</u></u>

6. SURPLUS

The Fonds' board of directors has reserved a portion of the surplus for the awarding of scholarships and grants, including a sum to meet the Fonds' commitments under joint action programs and an amount for its partnership project (CANTOR) involving Québec's other two research support funds. The Fonds cannot use these amounts set aside for appropriations of inside origin for other purposes without the board of directors' prior consent. These appropriations break down as follows:

	2004
Research scholarships and grants	\$961 892
Partnership project (CANTOR)	<u>215 962</u>
	<u><u>\$1 177 854</u></u>

7. SUBSIDIES AND OTHER ACCOUNTS RECEIVABLE

	2004	2003
Fonds québécois de la recherche sur la société et la culture	\$1 529 744	\$2 528 624
Ministère du Développement économique et régional et de la Recherche	27 432	451 374
Fonds de la recherche en santé du Québec	3 713	
Other	<u>2 929 905</u>	<u>3 471 277</u>
	<u><u>\$4 490 794</u></u>	<u><u>\$6 451 275</u></u>

8. SUMS HELD ON BEHALF OF GRANTING AGENCIES

Under agreements entered into with a few agencies, the Fonds assumes certain operations related to the allocation of research grants in specific fields. The Fonds acts solely as an intermediary by providing expertise in this matter. Except for management fees, these operations are not shown in the Fonds' operating results.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

8. SUMS HELD ON BEHALF OF GRANTING AGENCIES

The operations assumed under these agreements are as follows:

	Research fields					Total
	Climate change	Perspectives STS	Environment	Highway safety	Optical development	
Opening balance	\$766		\$1 220 514	\$90 445	\$1 939 169	\$3 250 894
Increase	650 000	\$480 000				1 130 000
Interest on bank deposits	336	3 628	25 946		41 717	71 627
	<u>651 102</u>	<u>483 628</u>	<u>1 246 460</u>	<u>90 445</u>	<u>1 980 886</u>	<u>4 452 521</u>
Decrease						
Research grants	650 000	59 720	509 846	36 745	703 590	1 959 901
Repayments to agencies				9 112		9 112
Transfer of interest to Fonds	1 102	3 628				4 730
Management fees deposited in the Fonds		10 000				10 000
	<u>651 102</u>	<u>73 348</u>	<u>509 846</u>	<u>45 857</u>	<u>703 590</u>	<u>1 983 743</u>
Closing balance	<u><u></u></u>	<u><u>\$410 280</u></u>	<u><u>\$736 614</u></u>	<u><u>\$44 588</u></u>	<u><u>\$1 277 296</u></u>	<u><u>\$2 468 778</u></u>

These amounts break down as follows:

Amounts held for subsidizing agencies - cash	\$2 465 285
Accrued interest	<u>3 493</u>
	<u><u>\$2 468 778</u></u>

9. FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Data processing development	\$647 268	\$202 832	\$444 436	\$293 510
Office furniture and equipment	315 843	223 913	91 930	123 314
Data processing equipment	2 823 597	2 267 716	555 881	387 784
Leasehold improvements	<u>445 588</u>	<u>181 314</u>	<u>264 274</u>	<u>342 600</u>
	<u><u>\$4 232 296</u></u>	<u><u>\$2 875 775</u></u>	<u><u>\$1 356 521</u></u>	<u><u>\$1 147 208</u></u>

Disbursements related to acquisitions for the fiscal year are \$955 899 (2003: \$1 100 891).

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

10. GRANTS AND SCHOLARSHIPS PAYABLE

	2004	2003
Fonds québécois de la recherche sur la société et la culture	\$55 899	\$3 329 931
Fonds de la recherche en santé du Québec		73 001
Other	332 625	1 442 405
	<u>\$388 524</u>	<u>\$4 845 337</u>

11. ACCOUNTS PAYABLE AND ACCRUALS

	2004	2003
Fonds québécois de la recherche sur la société et la culture	\$128 878	\$1 279 343
Fonds de la recherche en santé du Québec	122 023	422 088
Suppliers	459 063	956 950
	<u>\$709 964</u>	<u>\$2 658 381</u>

12. COMMITMENTS

At March 31, 2004, the Fonds' commitments totalled \$52 288 524 for grants and \$8 503 597 for scholarships. Awarding of these grants and scholarships, however, depends on the funds allocated by Parliament.

13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements at exchange value, the Fonds is a related party to all government, departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Fonds did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements

14. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value, given that they mature in the near future.

The fair value of amounts payable for subsidizing agencies is equal to its book value, given that these amounts comprise short-term financial assets.

15. FUTURE FRINGE BENEFITS**Pension plan**

The supplemental pension plan for staff members of the Fonds pour la formation de chercheurs et l'aide à la recherche is a defined-contribution plan. The liability of the Fonds towards this plan is restricted to its contributions as an employer. This plan will not pay benefits in excess of available funds.

Contributions charged to the year-end statement amount to \$89 684 (2003: \$98 167) and represent current service pension costs.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

15. FUTURE FRINGE BENEFITS (cont'd)**Vacation time**

The expenses related to vacation time detail as follows:

	2004	2003
Opening balance	\$176 523	\$183 266
Charges for the year	154 711	112 206
Benefits paid during the year	(144 739)	(118 949)
Closing balance	<u>\$186 495</u>	<u>\$176 523</u>

16. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

MANAGEMENT'S REPORT

The financial statements of the Fonds québécois de la recherche sur la nature et les technologies were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. The other financial information contained in the annual activity report concurs with the information given in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Fond recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors must oversee the manner in which management performs its financial reporting duties and has approved the financial statements.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Sylvie Dillard
President and Chief Executive Officer

Lucie Girard
Director of Administration and Evaluation

Québec, June 4, 2004

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Fonds québécois de la recherche sur la nature et les technologies as at March 31, 2004 and the statement of revenue and expenditure and the statement of surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2004 and the application of subsidies and cash flows for the year then ended, in accordance with accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 4, 2004

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE
(R.S.Q., c. M-30.01)

REVENUE AND EXPENDITURE
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u> (Note 3)
SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES (Note 4)		
Research grants	\$29 439 591	\$29 449 292
Scholarships	14 031 872	15 351 154
Operations	<u>2 992 915</u>	<u>3 715 009</u>
	46 464 378	48 515 455
INTEREST AND OTHER REVENUE	<u>486 832</u>	<u>686 189</u>
	<u>46 951 210</u>	<u>49 201 644</u>
GRANTS AND SCHOLARSHIPS AWARDED		
Research grants	36 019 191	29 922 222
Scholarships	<u>15 570 511</u>	<u>13 545 982</u>
	51 589 702	43 468 204
	(4 638 492)	5 733 440
OPERATING EXPENSES (Note 5)	<u>3 995 512</u>	<u>4 110 835</u>
(DEFICIENCY) EXCESS REVENUE OVER EXPENDITURE	<u><u>\$(8 634 004)</u></u>	<u><u>\$1 622 605</u></u>

SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPENING BALANCE		
Previously established balance	\$953 370	\$663 007
Adjustment (Note 3)		
Cancellation of carrying over of unappropriated government subsidy income	<u>9 103 840</u>	<u>7 771 598</u>
Adjusted balance	10 057 210	8 434 605
(Deficiency) Excess revenue over expenditure	<u>(8 634 004)</u>	<u>1 622 605</u>
CLOSING BALANCE (Note 6)	<u><u>\$1 423 206</u></u>	<u><u>\$10 057 210</u></u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

BALANCE SHEET
as at March 31, 2004

	2004	2003 (Note 3)
ASSETS		
Current assets		
Cash on hand	\$1 506 547	\$4 206 781
Term deposit (2.35%, maturing April 2, 2004)	6 000 000	10 000 000
Accrued interest	7 666	20 543
Subsidies and other accounts receivable (Note 7)	3 110 347	4 948 695
Prepaid expenses	8 999	17 617
	<u>10 633 559</u>	<u>19 193 636</u>
Fixed assets (Note 8)	<u>834 058</u>	<u>841 033</u>
	<u><u>\$11 467 617</u></u>	<u><u>\$20 034 669</u></u>
LIABILITIES		
Current liabilities		
Grants and scholarships payable (Note 9)	\$449 200	\$156 655
Accounts payable and accruals (Note 10)	1 731 969	2 937 231
Deferred subsidies from agencies	7 445 398	6 395 267
Instalment of long-term debt (Note 11)	75 090	70 463
	<u>9 701 657</u>	<u>9 559 616</u>
Long-term debt (note 11)	<u>342 754</u>	<u>417 843</u>
	<u>10 044 411</u>	<u>9 977 459</u>
SURPLUS (Note 6)	<u>1 423 206</u>	<u>10 057 210</u>
	<u><u>\$11 467 617</u></u>	<u><u>\$20 034 669</u></u>
COMMITMENTS (Note 12)		

On behalf of the Board of Directors,
 Louise Dandurand
 Richard Cloutier

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

The Fonds québécois de la recherche sur la société et la culture was established under the Act respecting the Ministère du Développement économique et régional et de la Recherche (R.S.Q., c. M-30.01). The Fonds' purpose is to promote and provide financial assistance for the development of research into and dissemination of knowledge in the social sciences, humanities, education, management, arts and literature; researcher training through the allocation of scholarships to graduate students and individuals doing post-doctoral research, the allocation of professional development bursaries for those wishing to re-enter research circles and the allocation of subsidies to lighten the workloads of college professors involved in research activities. It establishes all partnerships required, notably with the universities, colleges, cultural institutions, government departments and public and private organizations concerned.

Under section 48 of the above-mentioned Act, the Fonds québécois de la recherche sur la société et la culture is an agent of the Gouvernement du Québec and, as such, is not subject to federal or provincial income tax.

2. ACCOUNTING POLICIES

The Fonds' financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of changes in financial position is not shown, as it would not provide any useful supplementary information regarding the Fonds' cash flow during the year.

Subsidies from the Gouvernement du Québec and other organizations

Subsidies from the Gouvernement du Québec and other organizations are recorded as proceeds for the fiscal year in which the related expenses are incurred.

Grants and scholarships awarded

Grants and scholarships are recorded when authorized and when the recipients have met the eligibility criteria. Cancellations or repayments of grants and scholarships awarded are recorded in the fiscal year in which they are cancelled or reimbursed.

Fixed assets

Fixed assets are recorded at cost and amortized over the duration of their service life using the straight-line method at the following rates:

	Rate
Data processing development	20%
Office furniture and equipment	20%
Data processing equipment	33 1/3%
Leasehold improvements	20%

3. CHANGE IN ACCOUNTING POLICY

As of the current fiscal year, the Fonds records as deferred government subsidies only the subsidies related to scholarships and grants on which there were appropriations of outside origin whereas, previously, all research scholarships and grants were deferred. The financial statements for the fiscal year ended March 31, 2003 were adjusted, thereby increasing (decreasing) the following items:

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

3. CHANGE IN ACCOUNTING POLICY (cont'd)

	2003
Surplus for the year	\$1 332 242
Deferred government subsidies	(9 103 840)
Surplus	9 103 840

4. SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES

	2004	2003
Ministère du Développement économique et régional et de la Recherche:		
Research grants	\$26 551 578	\$28 350 548
Scholarships	14 031 872	15 351 154
Operations	2 729 400	3 464 400
	43 312 850	47 166 102
Other departments and agencies:		
Research grants	2 888 013	1 098 744
Operations	263 515	250 609
	3 151 528	1 349 353
	<u>\$46 464 378</u>	<u>\$48 515 455</u>

5. OPERATING EXPENSES OF THE FONDS

	2004	2003
Salaries		
Wages	\$2 056 137	\$1 977 070
Training and professional development	11 897	27 542
Professional dues	799	2 254
	2 068 833	2 006 866
Services		
Fees	872 916	1 114 874
Lease		
Rent	247 585	247 424
Insurance	4 674	9 187
Maintenance and repairs	22 829	20 870
Location	19 350	13 696
	294 438	291 177
Communications	59 111	117 385
Transportation and accommodations	225 901	195 202
Amounts carried forward	<u>\$3 521 199</u>	<u>\$3 725 504</u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

5. OPERATING EXPENSES OF THE FONDS (cont'd)

	2004	2003
Amounts brought forward	<u>\$3 521 199</u>	<u>\$3 725 504</u>
Other expenses		
Telecommunications	67 593	58 200
Photocopies	18 327	17 194
Mailing costs	15 272	16 874
Office expenditures	24 411	29 710
Other expenses	7 993	11 473
Financial charges	<u>28 620</u>	<u>16 142</u>
	<u>162 216</u>	<u>149 593</u>
Fixed assets		
Purchase of uncapitalized goods		46 737
Amortization	<u>312 097</u>	<u>189 001</u>
	<u>312 097</u>	<u>235 738</u>
	<u><u>\$3 995 512</u></u>	<u><u>\$4 110 835</u></u>

6. SURPLUS

The Fonds' board of directors has reserved a portion of the surplus for the awarding of scholarships and grants, including a sum to meet the Fonds' commitments under joint action programs. The Fonds cannot use these amounts set aside for appropriations of inside origin for other purposes without the board of directors' prior consent. These appropriations break down as follows:

	2004
Research scholarships and bursaries	<u><u>\$1 008 851</u></u>

7. SUBSIDIES AND OTHER ACCOUNTS RECEIVABLE

	2004	2003
Fonds québécois de la recherche sur la nature et les technologies	\$184 777	\$4 609 274
Ministère du Développement régional et économique et de la Recherche	76 783	
Fonds de la recherche en santé du Québec	31 672	67 939
Other	<u>2 817 115</u>	<u>271 482</u>
	<u><u>\$3 110 347</u></u>	<u><u>\$4 948 695</u></u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

8. FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Data processing development	\$353 517	\$105 189	\$248 328	\$137 942
Office furniture and equipment	198 642	83 635	115 007	144 971
Data processing equipment	281 932	178 064	103 868	83 790
Leasehold improvements	538 437	171 582	366 855	474 330
	<u>\$1 372 528</u>	<u>\$538 470</u>	<u>\$834 058</u>	<u>\$841 033</u>

Disbursements related to the fiscal year's acquisitions are \$305 122 (2003: \$742 605).

9. GRANTS AND SCHOLARSHIPS PAYABLE

	2004	2003
Fonds québécois de la recherche sur la nature et les technologies	\$100 000	\$8 953
Fonds de la recherche en santé du Québec	100 000	
Other	249 200	147 702
	<u>\$449 200</u>	<u>\$156 655</u>

10. ACCOUNTS PAYABLE AND ACCRUALS

	2004	2003
Fonds québécois de la recherche sur la nature et les technologies	\$1 429 744	\$2 519 671
Suppliers	302 225	417 560
	<u>\$1 731 969</u>	<u>\$2 937 231</u>

11. LONG-TERM DEBT

	2004	2003
Note payable to the Société immobilière du Québec, fixed rate of 6.68%, repayable in semi-annual instalments of \$3 649 in capital and interest, maturing in February 2007	\$115 767	\$150 555
Note payable to the Société immobilière du Québec, fixed rate of 6.08%, repayable in semi-annual instalments of \$4 602 in capital and interest, maturing in November 2010	302 077	337 751
	<u>417 844</u>	<u>488 306</u>
Instalment due within one year	75 090	70 463
	<u>\$342 754</u>	<u>\$417 843</u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

11. LONG-TERM DEBT (cont'd)

Payments of principal for the next five fiscal years are as follows:

2005	\$75 090
2006	80 022
2007	81 628
2008	45 469
2009	48 311

Interest paid on the debt totalled \$28 558 (2003: \$16 469).

12. COMMITMENTS

As at March 31, 2004, Fonds commitments amount to \$36 153 081 for grants and \$19 110 705 for scholarships. Whether these grants and scholarships are awarded depends on the appropriations allotted by Parliament.

13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, the Fonds is a related party to all government departments, special funds, and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Fonds did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

14. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value, given that they mature in the near future.

The following table indicates the book value and fair value of the Fonds' long-term financial instruments:

	2004		2003	
	Book value	Fair value	Book value	Fair value
Long-term debt (including short-term portion)	<u>\$417 844</u>	<u>\$443 842</u>	<u>\$488 306</u>	<u>\$506 190</u>

15. FUTURE FRINGE BENEFITS**Pension plan**

The supplemental pension plan for staff members of the Fonds is a defined-contribution plan. The liability of the Fonds towards this plan is restricted to its contributions as an employer. This plan will not pay benefits in excess of available funds.

Contributions charged to the year-end statement amount to \$68 311 (2003: \$59 025) and represent current service pension costs.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

15. FUTURE FRINGE BENEFITS
Vacation time

The expenses related to vacation time detail as follows:

	2004	2003
Opening balance	\$121 490	\$22 485
Charge for the year	114 667	142 319
Benefits paid during the year	(105 273)	(43 314)
Closing balance	<u>\$130 884</u>	<u>\$121 490</u>

16. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

MANAGEMENT'S REPORT

The financial statements of the Fonds québécois de la recherche sur la société et la culture were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. The other financial information contained in the annual activity report concurs with the information shown in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Fond recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Louise Dandurand
President and Chief Executive Officer

Lucie Girard
Vice-president of Administration and Evaluation

Québec, June 4, 2004

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Fonds québécois de la recherche sur la société et la culture as at March 31, 2004 and the statements of revenue, expenditure and surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 4, 2004

HÉMA-QUÉBEC
(R.S.Q., c. H-1.1)

OPERATING RESULTS AND NET ASSETS
for the year ended March 31

	<u>2004</u>	<u>2003</u>
REVENUE		
Grant from the Government of Québec	\$259 815 785	\$249 701 157
Blood products sold to Canadian Blood Services	233 592	7 693
Interest on bank deposits	827 859	423 783
Other income	<u>1 329 294</u>	<u>1 347 501</u>
	262 206 530	251 480 134
EXPENSES (Note 3)	<u>255 453 466</u>	<u>244 330 820</u>
EXCESS OF REVENUE OVER EXPENSES	6 753 064	7 149 314
NET ASSETS AT BEGINNING	<u>8 099 832</u>	<u>950 518</u>
NET ASSETS AT END	<u><u>\$14 852 896</u></u>	<u><u>\$8 099 832</u></u>

HÉMA-QUÉBECBALANCE SHEET
as at March 31

	<u>2004</u>	<u>2003</u>
ASSETS		
Short-term		
Cash	\$522 658	
Short-term investments (Note 4)	10 856 988	
Receivables (Note 5)	9 193 771	\$2 616 775
Grant forthcoming from the Government of Québec	206 252	260 995
Inventory (Note 6)	19 801 427	24 861 590
Prepaid expenses (Note 7)	3 398 374	3 952 547
	<u>43 979 470</u>	<u>31 691 907</u>
Long-term investment (Note 4)		1 795 000
Fixed assets (Note 8)	<u>37 757 294</u>	<u>39 244 607</u>
	<u>\$81 736 764</u>	<u>\$72 731 514</u>
LIABILITIES		
Short-term		
Bank overdraft (Note 9)		\$4 998 326
Accounts payable and accrued expenses (Note 10)	\$24 349 773	14 718 795
Payment on long-term debt (Note 11)	5 984 167	5 693 942
	<u>30 333 940</u>	<u>25 411 063</u>
Long-term debt (Note 11)	33 334 053	35 543 422
Liabilities under the provisions of accrued benefits (Note 12)	3 215 875	3 677 197
NET ASSETS	<u>14 852 896</u>	<u>8 099 832</u>
	<u>\$81 736 764</u>	<u>\$72 731 514</u>

COMMITMENTS (Note 14)

For the Board of Directors,
André Lebrun, Director
Cheryl Campbell Steer, Director

HÉMA-QUÉBEC**CASH FLOWS**
for the year ended March 31

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Cash and cash equivalent-neutral operating result items		
Excess of revenue over expenses	\$6 753 064	\$7 149 314
Fixed assets depreciation	4 552 965	5 063 026
Loss on write-offs and disposal of assets	2 544 776	2 512 577
Increase (reduction) in liability on the account of accrued benefits	<u>(461 322)</u>	<u>788 629</u>
	13 389 483	15 513 546
Changes in non-cash working capital		
Reduction (increase) in receivables	(6 576 996)	499 529
Reduction in amount of grant forthcoming from Government of Québec	54 743	729 975
Reduction (increase) in inventory	5 060 163	(15 618 885)
Reduction (increase) in prepaid expenses	554 173	(1 916 049)
Increase (reduction) in payables and accrued liabilities	<u>9 630 978</u>	<u>(2 440 582)</u>
Cash flow (used for) from operating activities	<u>22 112 544</u>	<u>(3 232 466)</u>
INVESTING ACTIVITIES		
Reduction (increase) in the long-term investment	1 795 000	(1 795 000)
Capital acquisitions	(5 626 734)	(5 905 082)
Proceeds from disposal of capital property	<u>16 306</u>	<u>31 333</u>
Cash flow used for investing activities	<u>(3 815 428)</u>	<u>(7 668 749)</u>
FINANCING ACTIVITIES		
Long-term debt	3 775 000	24 896 375
Settlement of long-term debt	<u>(5 694 144)</u>	<u>(19 672 579)</u>
Cash flow from (used for) financing activities	<u>(1 919 144)</u>	<u>5 223 796</u>
INCREASE (REDUCTION) IN CASH AND CASH EQUIVALENTS	16 377 972	(5 677 419)
CASH AND CASH EQUIVALENTS AT BEGINNING	<u>(4 998 326)</u>	<u>679 093</u>
CASH AND CASH EQUIVALENTS AT END	<u>\$11 379 646</u>	<u>\$(4 998 326)</u>
Cash and cash equivalents are made up of the following items:		
Cash	\$522 658	
Bank overdraft		\$(4 998 326)
Short-term investments	<u>10 856 988</u>	
	<u>\$11 379 646</u>	<u>\$(4 998 326)</u>
Interest paid	<u>\$2 200 199</u>	<u>\$1 930 399</u>

HÉMA-QUÉBECCOMPLEMENTARY NOTES
as at March 31, 2004**1. INCORPORATION AND FUNCTIONS**

Héma-Québec, constituted on March 26, 1998, by letters patent issued under Part III of the Companies Act (R.S.Q., Chapter C-38), has continued its operations in accordance with the provisions of the Act respecting Héma-Québec and the Hemovigilance Committee (S.Q., 1998, Chapter C-41). Héma-Québec is a non-profit legal entity whose mission is to efficiently provide adequate quantities of safe, optimal blood components, substitutes and human tissues to meet the needs of all Quebecers, and to provide and develop expertise, services, and specialized and innovative products in the fields of transfusion medicine and human tissue transplantation.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Héma-Québec have been prepared by management in conformity with Canadian generally accepted accounting principles. These statements include some amounts that are based on best estimates and judgments.

Inventory

The inventory of fractionation products and of collection and laboratory equipment is evaluated at the lesser of cost or replacement value, the cost being determined according to the average cost method.

Fixed Assets

Fixed assets are recorded at cost. Depreciation is calculated in terms of the economic life of these fixed assets, according to the straight-line depreciation method and at the following rates:

Building	4%
Physical improvements	5%
Leasehold improvements	length of lease
Automotive equipment	20%
Machinery and equipment	10% and 20%
Office furniture and equipment	20%
Computer equipment	33 1/3%
Computer software	33 1/3%
Software packages	20%
Intangible assets	10%

Translation of foreign currencies

Operations denominated in foreign currencies are accounted for at the average rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at year-end, whereas non-monetary items are translated at the exchange rate in effect on the date of the transaction. Translation gains or losses related to monetary assets and liabilities are included in the calculation of the income for the financial year.

Employee benefit plans

Héma-Québec accounts for the obligations stemming from its employee benefit plans, as well as related costs, after deducting plan assets. To this end, Héma-Québec has adopted the following conventions.

The cost of pensions and other retirement benefits earned by employees are actuarially determined using the projected benefit method, pro-rated on service and based on management's best estimates of expected plan investment performance, salary escalation, retirement ages of employees and anticipated health care costs.

For purposes of calculating the anticipated yield of benefit plan assets, such assets are evaluated at their fair value.

HÉMA-QUÉBEC

COMPLEMENTARY NOTES (cont'd)
as at March 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Employee benefit plans (cont'd)**

The surplus of the actuarial loss on 10% of the accrued benefit obligation is amortized over the average remaining service period of active employees. The average remaining service period is 12 years for the unionized employee pension plan, 14 years for the non-unionized employee pension plan, 10 years for the supplemental pension plan and 17 years for the other benefit plans.

The transitional obligation and the cost of past services are normally amortized over the average remaining service period of active employees. However, the cost of past services of \$2 282 000 as at March 31, 2003, related to improvements granted for service after September 28, 1998, in accordance with the settlement agreement negotiated with the Red Cross, has been completely expensed in the 2004 financial year.

Cash and cash equivalents

Héma-Québec's policy is to present bank balances – including bank overdrafts whose balances often fluctuate between the overdraft, available funds and the short-term investments whose maturity dates do not exceed three months from their acquisition dates – in cash and cash equivalents.

HÉMA-QUÉBEC

COMPLEMENTARY NOTES (cont'd)
as at March 31, 2004

3. EXPENSES BY RESPONSIBILITY CENTRE (LABILE PRODUCTS, FRACTIONATED PRODUCTS AND OTHER SERVICES)

	2004						
	Recruiting, marketing and promotion	Procurement	Production	Distribution	Medical services	Medical affairs	Quality and standards
Wages	\$704 867	\$22 220 547	\$9 690 603	\$3 789 375	\$1 403 095	\$1 293 232	\$1 029 772
Benefits	141 748	4 538 922	1 972 859	754 849	290 154	261 117	185 153
Travel and training	84 629	421 711	77 972	7 268	50 231	46 114	73 031
Human resources	11 215	101 997	39 692	1 179	24 383	62 522	12 110
Medical supplies	(3 436)	3 640 432	9 865 447	112 641	772 280	1 682	(1 866)
Fractionated products							
Blood drives	1 273	15 100 084	230 766	1 249 282	23 852	593	1 494
Transporta- tion and delivery	2 372	50 967	949 418	1 723 590	1 160	256	21
Bought-in services	176 285	33 009	289 396	965	119 850	126 834	23 341
Buildings and premises	8 423	315 367	416 179	92 978	21 302	148 366	15 331
Advertising and public relations	2 977 492	694 401	1 043	607	579	1 162	60
Information technology	38 009	108 078	29 087	44 588	8 732	3 988	8 075
Office expenses	206 651	481 873	83 460	44 935	30 092	35 538	14 921
Insurance							
Loss on write-offs and disposal of assets		20 735	118 232	51 970	16 771		
Fixed assets depreciation	60 420	276 228	449 615	75 470	106 716	27 234	15 335
Interest on advances and bank charges		61					
Interest on long-term debt							
Subtotal	4 409 948	48 004 412	24 213 769	7 949 697	2 869 197	2 008 638	1 376 778
Plasma for fractiona- tion *							
Total	\$4 409 948	\$48 004 412	\$24 213 769	\$7 949 697	\$2 869 197	\$2 008 638	\$1 376 778

* Héma-Québec has three major areas of activity: labile products, fractionated products and other products and services. Some expenses related to collecting plasma for fractionation are incurred for labile products and reallocated to fractionated products on the basis of costs incurred. The cost allocation is made according to units shipped.

2004								2003
Research and development	Information technology	Administration	Operation of physical plant	Labile subtotal	Fractionated products	Other services	Total	Total
\$2 183 448	\$2 537 786	\$4 922 110	\$960 969	\$50 735 804	\$775 316	\$1 354 167	\$52 865 287	\$45 975 705
391 162	467 052	2 344 182	195 484	11 542 682	150 868	237 152	11 930 702	9 588 400
78 883	165 864	347 144	57 135	1 409 982	24 723	74 131	1 508 836	1 581 620
9 707	75 875	100 654	29 945	469 279	7 067	4 824	481 170	452 949
484 769	(2 675)	(15 809)	3 572	14 857 037	362 159	103 505	15 322 701	11 664 433
8 268	845	3 307	11 441	16 631 205	120 947 489 54	30 730	120 947 489 16 661 989	123 266 526 17 458 107
1 019	6 476	320	108	2 735 707	87 584	36 716	2 860 007	2 450 938
157 203	626 762	1 216 565	356 389	3 126 599	326 034	98 266	3 550 899	4 339 889
76 548	17 374	615	3 307 855	4 420 338		3 887	4 424 225	5 352 599
8 111	10 439	199 080	611	3 893 585		31 067	3 924 652	3 944 498
7 406	1 360 371	25 004	19 069	1 652 407	8 719	88 227	1 749 353	1 599 796
38 693	35 818	128 071 8 442 035	80 605	1 180 657 8 442 035	5 638	56 069 200 000	1 242 364 8 642 035	1 079 047 5 987 664
43 115	724	2 252 966	40 263	2 544 776			2 544 776	2 512 577
131 567	1 280 122	550 134	1 523 495	4 496 336	5 136	51 493	4 552 965	5 063 026
	639	2 779	9 251	12 730			12 730	176 887
			1 593 786	1 593 786	637 500		2 231 286	1 836 159
3 619 899	6 583 472	20 519 157	8 189 978	129 744 945	123 338 287	2 370 234	255 453 466	244 330 820
				(9 286 585)	9 286 585			
\$3 619 899	\$6 583 472	\$20 519 157	\$8 189 978	\$120 458 360	\$132 624 872	\$2 370 234	\$255 453 466	\$244 330 820

HÉMA-QUÉBECCOMPLEMENTARY NOTES (cont'd)
as at March 31, 2004**4. SHORT-TERM INVESTMENTS**

Héma-Québec has a term deposit of \$9 000 000 bearing interest at a rate of 2.20%. Héma-Québec also holds an investment of \$1 856 988 (\$1 795 000 in 2003 at the long-term investment level), in a trust account entered at cost, bearing interest at the rate of 1.95%. Upon Héma-Québec's provisional possession of its rental establishment in Québec City, this amount will be used for prepayments on an emphyteutic lease amortized over a 30-year period.

5. RECEIVABLES

	2004	2003
Customers	\$194 308	\$159 669
Sales taxes	1 569 782	1 404 869
Security deposit	6 949 890	
Other accounts receivable	479 791	1 052 237
	<u>\$9 193 771</u>	<u>\$2 616 775</u>

6. INVENTORY

	2004	2003
Fractionated products and substitutes	\$16 464 517	\$21 679 060
Collection equipment	2 411 404	2 069 350
Laboratory equipment	925 506	1 113 180
	<u>\$19 801 427</u>	<u>\$24 861 590</u>

7. PREPAID EXPENSES

	2004	2003
Insurance	\$3 156 413	\$3 686 119
Other	241 961	266 428
	<u>\$3 398 374</u>	<u>\$3 952 547</u>

8. FIXED ASSETS

	2004		2003	
	Cost	Accumulated depreciation	Net value	Net value
Land	\$2 139 500		\$2 139 500	\$2 139 500
Building	19 698 575	\$1 943 080	17 755 495	18 540 388
Physical improvements	7 030 492	936 737	6 093 755	5 932 822
Leasehold improvements *	1 526 773	348 497	1 178 276	283 240
Automotive equipment	36 469	10 414	26 055	25 558
Machinery and equipment *	9 604 472	3 353 930	6 250 542	5 690 686
Office furniture and equipment	3 092 987	1 813 141	1 279 846	838 114
Computer equipment *	5 729 651	4 050 253	1 679 398	761 896
Software and software packages *	4 473 132	3 118 705	1 354 427	2 282 403
Intangible assets **				2 750 000
	<u>\$53 332 051</u>	<u>\$15 574 757</u>	<u>\$37 757 294</u>	<u>\$39 244 607</u>

HÉMA-QUÉBECCOMPLEMENTARY NOTES (cont'd)
as at March 31, 2004**8. FIXED ASSETS (cont'd)**

- * The accumulated cost of work in progress, as at March 31, 2004, totals \$1 168 036, net of taxes, \$525 773 of which is included in the leasehold improvements category, \$274 490 in the machinery and equipment category, \$355 978 in the computer equipment category and \$11 795 in the software and software packages category. The amortization of these fixed assets will begin when the projects have been completed.
- ** During the financial year, Héma-Québec wrote off \$5 000 000 of intangible assets having a net value of \$2 250 000. These assets included databases for blood-product management, fees linked to the blood drive program and the transfer of operational and prescribed processes, as well as blood-product and tissue samples. The loss in value was taken into account in the item for loss on write-offs and disposal of assets in the statement of operating results.

9. BANK OVERDRAFT

As at March 31, 2004, Héma-Québec had a revolving line of credit of \$15 000 000 bearing interest at the prime rate less 0.50%.

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2004	2003
Suppliers	\$17 682 392	\$9 308 977
Salaries and fringe benefits	6 667 381	5 409 818
	<u>\$24 349 773</u>	<u>\$14 718 795</u>

11. LONG-TERM DEBT

	2004	2003
Loans, secured by the land and the building, with a net book value of \$19 894 995, repayable by monthly instalments of \$36 337 (including capital and interest) and \$53 783 plus interest of 6.19% and 5.79%, renewable in 2008 and 2009, falling due in 2023 and 2027	\$20 011 228	\$20 780 998
Loans repayable by monthly instalments of \$334 121 (including capital and interest) and \$149 468 (capital only) and annual instalments of \$256 429 (capital only), at fixed rates varying from 3.16% to 6.82%, falling due between 2004 and 2010	19 306 992 39 318 220	20 456 366 41 237 364
Payments falling due within one year	(5 984 167)	(5 693 942)
	<u>\$33 334 053</u>	<u>\$35 543 422</u>

Repayments of capital on long-term debt to be made during the next five financial years are the following:

2005	\$5 984 167
2006	4 612 123
2007	3 896 767
2008	3 503 718
2009	2 782 803

HÉMA-QUÉBECCOMPLEMENTARY NOTES (cont'd)
as at March 31, 2004**12. FUTURE FRINGE BENEFITS**

Héma-Québec has several defined benefit and money purchase plans that guarantee pensions, post-retirement benefits other than pensions and post-employment benefits to most employees.

Héma-Québec's net expenditures for the financial year for its benefit plans are as follows:

	Pension plans		Other plans	
	2004	2003	2004	2003
Defined benefit plans	\$3 666 600	\$698 300	\$1 061 964	\$2 348 861
Money purchase plans	\$570 900	\$712 900		

Information related to collective defined benefit plans, as at March 31, is as follows:

	Pension plans		Other plans	
	2004	2003	2004	2003
Obligations for accrued benefits	\$43 918 200	\$29 679 600	\$3 878 575	\$4 957 097
Fair value of assets at end of financial year	40 767 300	30 187 200		
Capitalization position – surplus (deficit)	(3 150 900)	507 600	(3 878 575)	(4 957 097)
Unamortized actuarial loss (gain)	2 368 600	(2 944 000)	1 011 000	1 383 000
Unamortized cost of past service	225 500	2 282 800	163 000	
Outstanding provisional obligation	45 500	50 500		
Liabilities for accrued benefits	\$(511 300)	\$(103 100)	\$(2 704 575)	\$(3 574 097)

Significant actuarial assumptions adopted by Héma-Québec to evaluate its obligations for accrued benefits are as follows:

	Pension plans	Other plans
Discount rate	6.00%	6.00%
Anticipated long-term rate of return for plan assets	7.25%	
Rate of salary increase	4.00%	4.00%

For evaluation purposes, the hypothetical rate of annual increase in medication and healthcare costs covered for each participant has been fixed at 9% for the year 2004. According to the hypothesis chosen, this rate should gradually decrease, reaching 5% in 2012. The hypothetical rate of annual increase in the cost of other healthcare expenses, borne by participants, has been fixed at 3%.

HÉMA-QUÉBEC

COMPLEMENTARY NOTES (cont'd)
as at March 31, 2004

12. FUTURE FRINGE BENEFITS (cont'd)

Other information for the financial year concerning Héma-Québec's defined plans is as follows:

	Pension plans		Other plans	
	2004	2003	2004	2003
Contributions made by Héma-Québec during the financial year	<u>\$3 258 400</u>	<u>\$748 600</u>		
Contributions made by employees during the financial year	<u>\$2 177 900</u>	<u>\$788 000</u>		
Benefits paid	<u>\$576 300</u>	<u>\$75 000</u>	<u>\$1 931 513</u>	<u>\$1 509 933</u>

During the financial year, Héma-Québec discontinued post-retirement medical care insurance for non-unionized employees, which allowed for a reduction in the non-amortized actuarial loss of \$614 000 and the financial year operating expenses of \$1 291 000. Since January 1, 2004, the money purchase plan has been replaced by a defined benefit plan, and a supplementary plan has been introduced.

13. FINANCIAL INSTRUMENTS**FAIR VALUE OF FINANCIAL INSTRUMENTS****Long-term liabilities**

As at March 31, 2004, the fair value of the long-term debt of \$39 318 220 (\$41 237 364 in 2003) came to \$39 671 156 (\$41 398 762 in 2003), in light of the discounted cash flow value at the market price for securities of a similar nature with regard to maturity dates and interest rates.

Other assets and liabilities

The fair value of the cash on hand, accounts receivable, subsidy to be received, investment, bank overdraft, accounts payable and accrued expenses amount to their book value, given their short term.

DERIVATIVE INSTRUMENTS**Cover**

Héma-Québec committed itself through forward cover contracts to purchase American currency in the amount of \$7 000 000 at a rate of 1.3107 for the period from April 1 to April 30, 2004, and in the amount of \$48 000 000 at a rate of 1.3945 for the period from May 12 to October 29, 2004, in order to cover certain identifiable risks linked to the purchase of products in foreign currency. As at March 31, 2004, Héma-Québec held no cover contracts.

14. COMMITMENTS

Héma-Québec has committed itself through long-term leases falling due at various dates over the next 30 years to its operations and administration premises. The leases for these premises include, in some cases, a five-year renewal option.

HÉMA-QUÉBECCOMPLEMENTARY NOTES (cont'd)
as at March 31, 2004**14. COMMITMENTS** (cont'd)

The rental expenses for these premises, for the financial year ended March 31, 2004, stood at \$1 549 526 (\$1 649 130 in 2003). The future minimum payments related to these long-term leases are the following:

2005	\$1 773 257
2006	1 689 342
2007	1 579 926
2008	1 543 453
2009	1 443 410
2010 and subsequent	30 163 615

15. TRANSACTIONS AMONG AFFILIATES

In addition to operations among affiliates already disclosed in the financial statements, Héma-Québec is affiliated with all government departments and special funds, as well as all organizations and enterprises controlled directly or indirectly by the Government of Québec or subjected either to joint control or to significant common influence on the part of the Government of Québec. Héma-Québec has not concluded any business transactions with these affiliates other than in the normal course of its activities and according to usual business terms. These operations are not disclosed separately in the financial statements.

16. COMPARATIVE FIGURES

Certain figures for 2003 have been reclassified in order to conform to the presentation adopted in 2004.

HÉMA-QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of Héma-Québec were drawn up by management, which is responsible for their preparation and presentation, including some amounts that are based on best estimates and judgments of management. This responsibility includes the choice of appropriate accounting policies in conformity with Canadian generally accepted accounting principles. The financial information presented elsewhere in this annual activity report is consistent with that given in the financial statements.

In order to discharge its responsibilities, management maintains a system of internal accounting controls that will allow it to produce reliable financial statements and that are designed to provide reasonable assurance that assets are protected and that transactions are duly approved and accounted for correctly, within the required delays.

Héma-Québec recognizes that it is responsible for managing its affairs in conformity with the laws and regulations governing it.

Actuaries from the firm of Morneau Sobeco have been appointed as consultants to Héma-Québec employees' private pension plan.

The Board of Directors must monitor the manner in which management carries out its responsibilities in relation to financial information and it has approved these financial statements.

The Auditor General of Québec has audited the financial statements of Héma-Québec in accordance with Canadian generally accepted auditing standards, and his auditor's report reveals the nature and extent of the audit and the statement of his opinion. The Auditor General of Québec can, without any restriction whatsoever, meet with the Board of Directors to discuss any aspect of this audit.

Guy Lafrenière
Vice-President, Administration & Finance

Francine Décary
Chief Executive Officer

Montréal, June 2, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of Héma-Québec as at March 31, 2004, and the statement of operating results and net assets, as well as the statement of cash flows, for the financial year ended on that date. These financial statements are the responsibility of the management of Héma-Québec. My responsibility is to express an opinion on these financial statements, based on my audit.

My audit has been conducted in accordance with Canadian generally accepted auditing standards. Those standards require that the audit be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of Héma-Québec as at March 31, 2004, and the results of its operations and its cash flows for the financial year ended on that date, in accordance with Canadian generally accepted accounting principles. In compliance with the requirements of the Auditor General Act (R.S.Q., Chapter V-5.01), I declare that, in my opinion, these principles have been applied in the same manner as during the preceding financial year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec City, June 2, 2004

HYDRO-QUÉBEC
(R.S.Q., c. H-5)

CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended December 31,
(in millions of dollars)

	<u>2003</u>	<u>2002</u>
REVENUE	<u>11 425</u>	<u>13 001</u>
EXPENDITURE		
Operations	2 246	2 209
Electricity and fuel purchased	1 956	3 536
Depreciation, amortization and decommissioning (Note 3)	1 916	2 062
Taxes (Note 4)	<u>611</u>	<u>580</u>
	<u>6 729</u>	<u>8 387</u>
OPERATING INCOME	4 696	4 614
Financial expenses (Note 5)	<u>2 734</u>	<u>3 058</u>
Income before non-controlling interest	1 962	1 556
Non-controlling interest	<u>31</u>	<u>30</u>
NET INCOME	<u>1 931</u>	<u>1 526</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the year ended December 31,
(in millions of dollars)

	<u>2003</u>	<u>2002</u>
BALANCE AT BEGINNING OF YEAR	9 897	9 134
Net income	<u>1 931</u>	<u>1 526</u>
	11 828	10 660
Dividends (Note 18)	<u>965</u>	<u>763</u>
BALANCE AT END OF YEAR	<u>10 863</u>	<u>9 897</u>

HYDRO-QUÉBEC

CONSOLIDATED BALANCE SHEET
as at December 31,
(in millions of dollars)

	2003	2002
ASSETS		
Fixed assets (Note 6)	50 865	49 694
Current assets		
Cash and cash equivalents	191	293
Investments	250	939
Accounts receivable	1 867	1 924
Financial assets related to debt (Note 10)	101	34
Materials, fuel and supplies	426	418
	2 835	3 608
Other long-term assets		
Investments (Note 7)	794	852
Trust for nuclear waste management (Note 8)	24	20
Deferred charges (Note 9)	1 126	3 391
Financial assets related to debt (Note 10)	884	325
Goodwill (Note 11)	298	302
Intangible assets (Note 12)	711	760
Government reimbursement for the 1998 ice storm	166	146
	4 003	5 796
	<u>57 703</u>	<u>59 098</u>
LIABILITIES AND EQUITY		
Long-term debt (Note 13)	34 356	36 695
Current liabilities		
Borrowings	72	68
Dividends payable	965	763
Accounts payable	1 604	1 467
Accrued interest	970	1 157
Current portion of long-term debt (Note 13)	1 629	2 969
	5 240	6 424
Other long-term liabilities (Note 14)	2 211	908
Perpetual debt (Note 15)	440	632
Non-controlling interest	329	224
SHAREHOLDER'S EQUITY (Note 18)		
Share capital	4 374	4 374
Retained earnings	10 863	9 897
Translation adjustment	(110)	(56)
	15 127	14 215
	<u>57 703</u>	<u>59 098</u>

Yvon Lamontagne, Chairman of the Audit Committee
André Bourbeau, Chairman of the Board of Directors

HYDRO-QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31,
(in millions of dollars)

	<u>2003</u>	<u>2002</u>
OPERATING ACTIVITIES		
Net income	1 931	1 526
Depreciation and amortization of fixed assets and intangible assets	1 785	1 796
Amortization of deferred charges	157	320
Change in non-cash working capital items (Note 19)	(76)	6
Other	<u>129</u>	<u>218</u>
	<u>3 926</u>	<u>3 866</u>
INVESTING ACTIVITIES		
Fixed assets and intangible assets	(3 133)	(2 456)
Long-term investments	26	(40)
Net change in short-term investments	697	(318)
Other	<u>(63)</u>	<u>10</u>
	<u>(2 473)</u>	<u>(2 804)</u>
FINANCING ACTIVITIES		
Issue of long-term debt	2 349	2 093
Maturity of long-term debt and sinking fund redemption	(2 699)	(2 102)
Repayment in advance of long-term debt	(897)	(462)
Receipts resulting from credit risk management	257	51
Net change in short-term borrowings	(4)	(25)
Dividends paid	(763)	(554)
Other	<u>207</u>	<u>(4)</u>
	<u>(1 550)</u>	<u>(1 003)</u>
CHANGE IN FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS	<u>(5)</u>	<u>(17)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(102)	42
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>293</u>	<u>251</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>191</u></u>	<u><u>293</u></u>
SUPPLEMENTARY INFORMATION		
Interest paid	<u>2 393</u>	<u>2 696</u>

HYDRO-QUÉBEC**COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(in millions of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

Under the provisions of the Hydro-Québec Act, the publicly owned corporation Hydro-Québec (the "Corporation") is mandated to supply power and to pursue endeavors in energy-related research and promotion, energy conversion and conservation, and any field connected with or related to power or energy.

The consolidated financial statements include the accounts of the Corporation, its subsidiaries, all of which are wholly owned, and its joint ventures (collectively "Hydro-Québec").

Regulation

The Act respecting the Régie de l'énergie grants the Régie de l'énergie exclusive authority to determine or modify the rates and conditions under which electricity is transmitted and distributed by the Corporation. Consequently, electricity transmission and distribution activities in Québec are said to be regulated. Moreover, this act stipulates that rates are determined on a basis that allows for recovery of the cost of service plus a fair rate of return on the rate base.

The Corporation's electricity transmission operations are subject to decision D-2002-95, handed down by the Régie de l'énergie in April 2002. In its decision, the Régie established the cost of service and granted a rate of return of 9.72% on the rate base, assuming a capital structure with 30% shareholder's equity.

On December 15, 2003, the Régie de l'énergie handed down interim decision D-2003-232, granting the Distributor a uniform 3% rate increase effective January 1, 2004. This decision followed the May 2003 decision in which the Régie recognized, among other things, certain regulatory and accounting principles to be applied with respect to the rate application relating to the Corporation's power distribution operations. The other changes requested, including the rate at which financial expenses are capitalized to fixed assets under construction, will be addressed in a subsequent decision.

The joint venture Noverco Inc. wholly owns Gaz Métro inc., whose main subsidiary, Gaz Métro Limited Partnership, is involved primarily in the distribution of natural gas by pipeline in Québec. Most aspects of the limited partnership's operations are monitored and controlled by the Régie de l'énergie.

The consolidated financial statements take into account certain regulatory accounting practices that differ from the accounting practices applied in unregulated enterprises. These practices relate specifically to certain deferred charges and fixed assets in service or disposed of as well as their depreciation and to the capitalization of financial expenses to fixed assets under construction.

Consolidation

Interests in joint ventures are accounted for using the proportionate consolidation method. Investments in companies over which Hydro-Québec can exercise a significant influence are accounted for on an equity basis, whereas venture capital investments are generally recorded at cost. Other long-term investments are also recorded at cost.

The operations and cash flows of Noverco Inc. and of Hydro-Québec International (HQI) holdings are consolidated with a one-quarter lag. The financial positions of these companies disclosed in the consolidated balance sheet of Hydro-Québec are as at September 30.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires that Management make estimates and assumptions that affect the amounts reported in the Financial statements. Actual amounts could differ from those estimates.

Revenue

Revenue is recognized when electricity is delivered or services are rendered. Revenue from electricity sales in Québec is recorded on the basis of cyclical billings and also includes revenue accrued in respect of electricity delivered but as yet unbilled.

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Income taxes**

The Corporation and certain of its subsidiaries have not recorded any income taxes since they are government-owned and therefore exempt from paying income taxes in Canada.

The incorporated subsidiaries and joint ventures subject to income tax use the liability method to account for income taxes.

Foreign currency translation

Revenue and expenditure resulting from transactions in foreign currencies are translated into the Canadian dollar equivalent at exchange rates in effect at the transaction date. Monetary assets and liabilities are translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date, and non-monetary items are translated at exchange rates in effect at the transaction date.

The exchange gains or losses resulting from the translation of monetary items are included in the statement of operations, unless they relate to liabilities hedging sales in U.S. dollars, in which case they are deferred to the year such sales are made.

The financial statements of the main foreign operations considered to be self-sustaining in terms of financial and operational management are translated according to the current rate method using the foreign currency as the measuring unit. Exchange gains or losses are presented as a translation adjustment under Shareholder's equity. The financial statements of foreign operations considered to be integrated in terms of financial management and operations are translated according to the temporal method.

Fixed assets

Fixed assets are carried at cost, which comprises materials, labor, other costs directly contributing to construction activities and financial expenses capitalized during construction.

The costs of fixed assets under construction are transferred to fixed assets in service when construction is completed and the facilities are in commercial operation. For generating facilities, the costs are transferred in instalments as generating units are completed and commissioned.

Fixed assets are depreciated over their useful lives, primarily under the sinking fund method, at a rate of 3%. Fixed assets related to gas transmission and distribution are depreciated using the straight-line method. Under the Hydro-Québec Act, the depreciation period is restricted to a maximum of 50 years. The depreciation periods for the main classes of fixed assets are as follows:

Hydraulic generation	45 to 50 years
Thermal generation, including nuclear	15 to 30 years
Transmission substations and lines	30 to 50 years
Distribution substations and lines	25 to 40 years
Gas distribution and transmission	25 to 35 years

Financial expenses capitalized to fixed assets under construction are determined using the average cost of long-term debt of the Corporation at the end of the previous year. Financial expenses capitalized to fixed assets under construction related to regulated transmission activities take a return on shareholder's equity into account. The portion that corresponds to the return on shareholder's equity is included in Revenue in the statement of operations.

When unregulated fixed assets are disposed of, the cost of such assets and the cost of their dismantlement, net of accumulated depreciation and salvage value, are charged to operations for the year. Upon disposal of regulated fixed assets, these costs are charged to a separate account and depreciated over a maximum period of 10 years, under the sinking fund method, at a rate of 3%.

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Cash and cash equivalents and short-term investments**

Cash and cash equivalents comprise cash and liquid short-term investments with a maturity of three months or less from the date of acquisition. Investments with a maturity of three to twelve months are disclosed separately under Current assets in the balance sheet.

Short-term investments are shown at unamortized cost. The book value of the investments approximates their fair value.

Employee future benefits

The Corporation offers all its employees a contributory defined-benefit pension plan, based on final pay, as well as other post-retirement and post-employment benefits.

The cost of pension benefits and other post-retirement benefits provided in exchange for services rendered during the year is calculated using the projected benefit method prorated on years of service, and is based on best estimate economic and demographic assumptions as determined by Management.

In order to establish its employee future benefit obligations, the Corporation has adopted the following policies:

- Past service costs arising from plan amendments and transitional balances relating to the Pension Plan and other post-retirement benefits as at January 1, 1999, are amortized on a straight-line basis over the employees' expected average remaining years of service. The transitional obligation relating to post-employment benefits is amortized on a straight-line basis over a period of five years.
- Amortization of actuarial gains or losses is recognized in the expense for the year if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the accrued benefit obligation or 10% of the market-related value of the assets of the plan fund, whichever is greater. Amortization corresponds to the excess divided by employees' expected average remaining years of service.
- The expected return on Pension Plan assets is based on a market-related value determined by using a five-year moving average for equity securities held, and by valuing other assets classes at their fair value.
- The value of the contribution holiday granted to employees for the year is disclosed as a reduction of service cost, as contributions deemed paid and amortized using the method for amortizing actuarial gains and losses.

Goodwill and intangible assets

The excess of the cost of investments in subsidiaries and joint ventures over the share of the fair value of the net assets acquired is recorded as goodwill. Intangible assets are recorded at cost.

Goodwill and intangible assets with indefinite useful lives are not amortized. These assets are tested for impairment, annually, or more frequently if events indicate a potential impairment in value. The excess of the carrying value over the fair value is recorded in the year in which the impairment is determined.

Intangible assets with definite useful lives are amortized over their useful lives. They are amortized according to the following methods and periods:

Software, licences and patents	straight-line	3 to 15 years
Rights	sinking fund at 3%	40 years
Environmental studies	sinking fund at 3%	5 years

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Sinking funds**

Sinking funds are created through the purchase of the Corporation's debentures, Government of Canada bonds, or bonds issued or guaranteed by the Québec government. The Corporation's debentures are deducted from long-term debt, while the other securities are presented as Financial assets related to debt.

Sinking fund securities are carried at unamortized cost, a method whereby the difference between the cost and the par value at maturity is amortized over the remaining term of the security.

Derivative instruments

Hydro-Québec uses various derivative instruments to manage foreign exchange and interest rate risk associated with long-term debt, foreign exchange risk related to sales and the risk related to fluctuating energy and raw material prices.

According to corporate policy, in order for a derivative instrument to qualify for hedge accounting, Hydro-Québec must be reasonably certain that the risk will materialize and that the hedge will be effective throughout the hedging period.

When the conditions for applying hedge accounting are not satisfied or hedging is discontinued, derivative instruments are valued at market value. Derivative instruments used for trading purposes, such as forward contracts, options and swaps, as well as open positions on energy trading, are also valued at market value. Realized and unrealized changes in fair value are recognized in the statement of operations as they occur.

The fair value of derivative instruments is based on the spot rates or forward rates or prices in effect at market closing at the balance sheet date. In the absence of this information for a given instrument, Management uses the available forward rate or price for an equivalent instrument. Different valuation models recognized by financial markets are used to estimate the fair value of options.

Currency swaps used to manage exchange risk related to principal payments on long-term debt and sale in U.S. dollars are translated at the closing exchange rates in effect at the balance sheet date. Those that constitute financial assets are presented as Financial assets related to debt, while those representing financial liabilities are presented as Long-term debt. Gains or losses on currency swaps related to payments on long-term debt are included in the statement of operations, while gains or losses on currency swaps related to sales in U.S. dollars are deferred to maturity, that is, the year the sales are made.

Interest rate exchanges, all of which are accounted for as hedges and which arise from currency swap agreements used to change long-term exposure to interest rate risk, are matched to interest expense on the borrowings to which they are related. The corresponding amounts payable or receivable are recorded as adjustments to accrued interest.

Derivative instruments (foreign exchange forward contracts, options and swaps) used in the short-term to manage financial risk over a period of no more than three years are, recorded at cost, in accordance with hedge accounting. Realized gains or losses related to these instruments are deferred and charged to operations on a basis consistent with the recognition of the gains or losses of the underlying reverse risk position.

When employed for hedging purposes, derivative instruments used to manage risks related to energy price fluctuations are accounted for at cost and the related gains or losses are deferred and charged to operations on a basis consistent with the recognition of the gains and losses of the underlying reverse risk position.

Decommissioning of nuclear generating station

The future costs of decommissioning Gentilly-2 nuclear generating station are charged progressively to operations and reflected in Other long-term liabilities. These estimated costs essentially relate to the cost of dismantling the station and removal of the irradiated fuel, increased by the interest capitalized annually to the accrued amounts. Interest is calculated at the expected nominal rate on Hydro-Québec's long-term borrowings. Future decommissioning costs are charged to operations annually under a sinking fund method over the remaining useful life of the plant.

HYDRO-QUÉBEC**COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

(in millions of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Decommissioning of nuclear generating station (cont'd)**

The Corporation revises these costs periodically based on the various assumptions and estimates underlying the calculations, possible technological advances and changes in the standards and regulations governing the decommissioning of nuclear generating stations. The restatements resulting from these revisions are accounted for on a prospective basis.

Reclassification

Some figures of the previous year have been reclassified in order to respect the presentation adopted in the current year.

2. CHANGES IN ACCOUNTING POLICIES**Disclosure of guarantees**

On January 1, 2003, Hydro-Québec adopted the recommendations of Accounting Guideline 14 (AcG-14) of the Canadian Institute of Chartered Accountants (CICA) Handbook entitled "Disclosure of Guarantees". Under this Guideline, Hydro-Québec is required to disclose significant information on its guarantees, regardless of the probability that it will have to make payments under these guarantees. Note 21, entitled "Commitments and Contingencies", presents the disclosures required on guarantees.

Disposal of long-lived assets and discontinued operations

On May 1, 2003, Hydro-Québec adopted the recommendation of Section 3475 of the CICA Handbook, entitled "Disposal of Long-lived Assets and Discontinued Operations". This new section establishes standards for recognition, measurement and disclosure relating to disposals of long-lived assets. It also provides criteria for classifying assets held for sale and requires that these assets be presented at the lower of their carrying value and their fair value less disposal costs. Finally, it provides criteria for classifying a disposal as a discontinued operation and specifies the presentation of and disclosures for discontinued operations and other disposals of long-lived assets. The adoption of this standard did not have an impact on the financial statements.

3. DEPRECIATION, AMORTIZATION AND DECOMMISSIONING

	2003	2002
Depreciation of fixed assets	1 672	1 670
Amortization of intangible assets	113	126
Decommissioning of nuclear generating station	28	77
Write-off of projects	30	108
Other	73	81
	<u>1 916</u>	<u>2 062</u>

4. TAXES

	2003	2002
Capital tax	301	281
Tax on gross revenue as municipal real estate tax on certain immovables	235	228
Municipal, school and other taxes	75	71
	<u>611</u>	<u>580</u>

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

5. FINANCIAL EXPENSES

	2003	2002
Interest		
Interest on debt securities	2 785	2 935
Amortization of borrowing discount and expenses	44	45
	2 829	2 980
Exchange loss	105	222
Loan guarantee fees	186	188
	291	410
Less:		
Capitalized financial expenses	357	305
Net investment income	29	27
	386	332
	2 734	3 058

6. FIXED ASSETS

	2003			
	In service	Accumulated depreciation	Under construction	Total
Generation				
Hydraulic	25 629	6 312	3 277	22 594
Thermal, including nuclear	2 427	1 351	60	1 136
Other	832	334	58	556
	28 888	7 997	3 395	24 286
Transmission				
Substations and lines	20 605	5 066	611	16 150
Other	2 324	1 275	49	1 098
	22 929	6 341	660	17 248
Distribution				
Substations and lines	9 758	3 066	214	6 906
Other	1 948	976	146	1 118
	11 706	4 042	360	8 024
Construction	60	47	2	15
Oil and gas	1 360	469	10	901
Other	858	547	80	391
	65 801	19 443	4 507	50 865

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

6. FIXED ASSETS (cont'd)

	2002			
	In service	Accumulated depreciation	Under construction	Total
Generation				
Hydraulic	24 145	5 877	3 484	21 752
Thermal, including nuclear	2 429	1 253	41	1 217
Other	839	311	61	589
	<u>27 413</u>	<u>7 441</u>	<u>3 586</u>	<u>23 558</u>
Transmission				
Substations and lines	19 306	4 653	1 145	15 798
Other	2 234	1 207	110	1 137
	<u>21 540</u>	<u>5 860</u>	<u>1 255</u>	<u>16 935</u>
Distribution				
Substations and lines	9 636	2 912	214	6 938
Other	1 982	1 073	92	1 001
	<u>11 618</u>	<u>3 985</u>	<u>306</u>	<u>7 939</u>
Construction	<u>62</u>	<u>45</u>	<u>7</u>	<u>24</u>
Oil and Gas	<u>1 323</u>	<u>442</u>	<u>7</u>	<u>888</u>
Other	<u>800</u>	<u>517</u>	<u>67</u>	<u>350</u>
	<u>62 756</u>	<u>18 290</u>	<u>5 228</u>	<u>49 694</u>

As at December 31, 2003, the Corporation had cumulative costs related to suspended draft design projects amounting to \$307 million (\$336 million as at December 31, 2002). These costs, for which financial expenses are not capitalized, are presented as fixed assets under construction.

As the corporation anticipates carrying out some of these projects at a later date, it periodically reviews the cumulative costs of its draft design projects.

During such reviews, Management must use estimates and make assumptions that have an impact on the amounts reported for draft design projects at the balance sheet date. Such projects are assessed in terms of profitability based on prevailing market conditions at the time of their commissioning, compliance with sustainable development principles and how well they are received by local communities. A significant change in the assessment based on these criteria could result in a reduction of the balance for draft design projects.

When a major project related to regulated fixed assets is discontinued, the costs determined to be non-recoverable are not recorded as operations expenditure but are deferred and amortized over a period of three years using the straight-line method.

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

7. INVESTMENTS

	2003	2002
At cost		
Noverco Inc. (Note 17)		
Notes ^a	142	141
Churchill Falls (Labrador) Corporation Limited (Note 21)		
Bonds ^b	56	57
Other ^c	189	230
	<u>387</u>	<u>428</u>
At equity		
Enbridge Inc.	258	244
Churchill Falls (Labrador) Corporation Limited (Note 21)	48	45
Connexim, Limited Partnership ^d		35
Meiya Power Company Limited	101	98
Other		2
	<u>407</u>	<u>424</u>
	<u>794</u>	<u>852</u>

- a) Subordinate debentures (interest rate based on the annual average rate of Government of Canada bonds with terms of over 10 years plus 4.45%) due in 2031, redeemable.
- b) Bonds secured by a general mortgage bearing interest at 7.5%, due in 2010, par value of \$62 million in 2003 (\$63 million in 2002).
- c) Includes venture capital investments at a book value of \$101 million and with a fair value of \$70 million as at December 31, 2003 (\$122 million and \$117 million as at December 31, 2002). The fair value of listed shares is based on the trading price at the balance sheet date; the fair value of unlisted shares is determined according to several different valuating methods.
- d) During the year, all of the units held in this company were sold.

8. TRUST FOR NUCLEAR WASTE MANAGEMENT

On November 15, 2002, an Act respecting the Long-Term Management of Nuclear Fuel Waste came into force. This legislation calls for nuclear energy companies that are owners of such waste in Canada to form a waste management organization as a separate legal entity and to set up a trust with a financial institution in order to finance the implementation of the nuclear fuel waste management proposal that will be adopted by the Government of Canada. In order to fulfill the financial responsibilities incumbent on nuclear fuel waste owners, the Corporation deposited an initial amount of \$20 million in a trust within 10 days of the date the Act came into force. It will also be required to deposit an additional \$4 million per year in the same trust until the waste management organization determines the amount to be paid by each nuclear plant owner. The Corporation made the required payment in 2003. The interest accumulated on trust assets is returned to the trust.

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

9. DEFERRED CHARGES

	2003	2002
Deferred foreign exchange loss		2 290
Other deferred charges related to debt		45
Accrued benefits assets (Note 20)	844	752
Other	282	304
	<u>1 126</u>	<u>3 391</u>

10. FINANCIAL ASSETS RELATED TO DEBT

	2003	2002
Currency swaps and contracts	981	291
Sinking funds	4	68
	<u>985</u>	<u>359</u>
Less		
Current portion	101	34
	<u>884</u>	<u>325</u>

11. GOODWILL

The changes in the book value of goodwill per reportable segment are as follows:

	Generation	Transmission	Oil and Gas	Total
Balance as at January 1, 2003	10	70	222	302
Changes in foreign exchange		(2)		(2)
Other			(2)	(2)
	<u>10</u>	<u>68</u>	<u>220</u>	<u>298</u>
Balance as at December 31, 2003				

The Corporation performed annual impairment tests and no reduction in the value of goodwill was identified.

12. INTANGIBLE ASSETS

	2003	
	Cost	Accumulated amortization
	Total	
Subject to amortization		
Software and licences	611	381
Rights	110	33
Environmental studies	118	95
Patents	38	15
	<u>877</u>	<u>524</u>
Not subject to amortization since January 1, 2002		
Servitudes	497	139
	<u>1 374</u>	<u>663</u>
		<u>711</u>

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

12. INTANGIBLE ASSETS (cont'd)

	2002	
	Cost	Accumulated amortization
Subject to amortization		
Software and licences	560	279
Rights	109	29
Environmental studies	112	95
Patents	36	9
	817	412
Not subject to amortization since January 1, 2002		
Servitudes	496	141
	1 313	553
		Total
		405
		355
		760

The Corporation performed annual impairment tests and no reduction in the value of non-amortizable intangible assets was identified.

13. LONG-TERM DEBT**Composition and maturities**

Debentures, other long-term debt and currency swaps representing financial liabilities, translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date, are summarized in the following table. These amounts are presented by year of maturity and take include the sinking funds.

Year of maturity	Debt of the Corporation					Sub-sidiaries and joint ventures	2003	2002
	Canadian dollars	U.S. dollars	Other currencies	Sinking Fund	Total		Total	Total
2003								2 969
2004	1 410	156	48	(5)	1 609	20	1 629	1 730
2005	1 629	657	155	(172)	2 269	196	2 465	2 702
2006	1 471	1 596	289	(100)	3 256	76	3 332	3 251
2007	1 321	587	25	(78)	1 855	251	2 106	1 621
2008	176	18	1 237		1 431	273	1 704	
1 to 5 years	6 007	3 014	1 754	(355)	10 420	816	11 236	12 273
6 to 10 years	3 686	2 817	110	(95)	6 518	921	7 439	8 147
11 to 15 years	166	519	592	(21)	1 256	124	1 380	2 961
16 to 20 years	4 742	2 645		(91)	7 296	77	7 373	7 889
21 to 25 years	10	1 231		(13)	1 228	83	1 311	1 492
26 to 30 years	1 146	2 287		(70)	3 363	63	3 426	4 023
31 to 35 years	3 149			(87)	3 062		3 062	2 146
36 to 40 years	278				278		278	280
41 to 45 years								
46 to 50 years	50				50		50	50
51 to 55 years								
56 to 60 years	430				430		430	403
	19 664 ^a	12 513	2 456	(732) ^b	33 901 ^c	2 084	35 985	39 664
Less								
Current portion	1 410	156	48	(5)	1 609	20	1 629	2 969
	18 254	12 357	2 408	(727)	32 292	2 064	34 356	36 695

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

13. LONG-TERM DEBT (cont'd)**Composition and maturities** (cont'd)

- a) Includes \$139 million and \$307 million in zero-coupon bonds, reported at their discounted value at a semiannually compounded interest rate of 10.95% and 10.67% respectively. Their par value will reach \$282 million and \$1 729 million in 2010 and 2020 respectively. Other bonds, reported at their discounted value and amounting to \$1 157 million, will reach a par value of \$1 333 million on maturity.
- b) The sinking funds include a special fund created for the majority of the significant discounted debt. It totaled \$152 million as at December 31, 2003 (\$81 million as at December 31, 2002).
- c) Includes \$32 812 million in bonds guaranteed by the Québec government (\$36 596 million as at December 31, 2002).

Allocation of debt by currency at time of issue and impact of financial assets related to debt

The following table summarizes long-term debt, including the current portion, in Canadian dollars and other currencies. Also shown are the effects of currency swaps and sinking funds allocated to repay debt, which are presented on the balance sheet under Financial assets related to debt.

	2003			2002	
	Long-term debt		Financial assets related to debt		
	In Canadian dollars and other currencies	At the closing exchange rates at the balance sheet date ^a	Currency swaps and sinking funds	Total	Total
Debt of the Corporation					
Canadian dollars	19 084	19 084	(3)	19 081	18 304
U.S. dollars	9 053	12 361	(787)	11 574	15 939
Other currencies					
Euros	673	1 234	(127)	1 107	1 260
Yen	39 500	548	(23)	525	637
Pounds sterling	240	573	(39)	534	763
Swiss francs	97	101	(5)	96	96
		2 456	(194)	2 262	2 756
		33 901	(984)	32 917	36 999
Subsidiaries and joint ventures		2 084	(1)	2 083	2 306
		35 985	(985)	35 000	39 305

- a) Includes \$923 million in financial liabilities composed of currency swaps (\$474 million as at December 31, 2002) and \$732 million in Hydro-Québec securities held in the sinking funds (\$561 million as at December 31, 2002).
- b) Long-term debt composed of \$831 million in Canadian dollars, \$930 million in U.S. dollars, \$319 million in Unidades de Fomento (indexed Chilean pesos) and \$3 million in Chinese renminbi (\$818 million in Canadian dollars, \$1 163 million in U.S. dollars, \$321 million in Unidades de Fomento and \$4 million in Chinese renminbi as at December 31, 2002).

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

13. LONG-TERM DEBT (cont'd)**Allocation of debt by currency at time of issue and at time of repayment**

The following table shows the allocation of debt, net of sinking funds, converted into Canadian dollars after taking swaps into account, according to the currency at time of issue and time of repayment.

	2003		2002	
	At time of issue	At time of repayment	At time of issue	At time of repayment
Debt of the Corporation				
Canadian dollars	19 081	20 439	18 304	17 778
U.S. dollars	11 574	12 478 ^a	15 939	19 221 ^a
Other currencies	2 262		2 756	
	<u>32 917</u>	<u>32 917</u>	<u>36 999</u>	<u>36 999</u>
Debt of the subsidiaries and joint-ventures				
Canadian dollars	831	831	818	818
U.S. dollars	930	677	1 163	916
Other currencies	322	575	325	572
	<u>2 083</u>	<u>2 083</u>	<u>2 306</u>	<u>2 306</u>
	<u>35 000</u>	<u>35 000</u>	<u>39 305</u>	<u>39 305</u>

a) Represents 94% of the balances as at December 31, 2003, (100% as at December 31, 2002) hedging sales in U.S. dollars.

Interest rates

The Hydro-Québec interest rates presented in the following table take into account nominal interest rates on borrowings, the related discounts and expenses, and the effect of interest rate swaps.

Year of maturity	2003				2002
	Canadian dollars	U.S. dollars	Other currencies	Weighted average	Weighted average
1 to 5 years	3.95	8.45	4.70	5.24	4.65
6 to 10 years	8.26	6.22	13.86	7.37	6.98
11 to 15 years	5.93	7.60	8.98	7.81	7.70
16 to 20 years	10.61	8.96	9.28	10.01	9.97
21 to 25 years	8.23	8.46		8.45	8.57
26 to 30 years	6.67	9.18		8.30	8.44
31 to 35 years	6.15			6.15	6.26
36 to 40 years	6.41			6.41	6.41
41 to 45 years					
46 to 50 years	6.44			6.44	6.44
51 to 55 years					
56 to 60 years	6.62			6.62	6.62
Weighted average	7.80	8.25	7.15	7.94	7.95

The variable-rate portion of Hydro-Québec's debt amounted to 24.5%, or 25.4% after perpetual debt, as at December 31, 2003 (23.2%, or 24.4% after perpetual debt, as at December 31, 2002). For information purposes, a change of 1% in the interest rate would change net income by \$90 million (\$97 million in 2002), not including the impact of derivative instruments used to manage short-term financial risk (Note 16).

HYDRO-QUÉBEC**COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

(in millions of dollars)

13. LONG-TERM DEBT (cont'd)**Fair value**

As at December 31, 2003, the fair value of Hydro-Québec's debt, net of sinking funds and after swaps, amounted to \$44 409 million (\$49 231 million as at December 31, 2002).

Fair value is obtained by discounting future cash flows, based on term and closing interest rates as at the balance sheet date for similar instruments available on financial markets. Changes in fair value reflect sensitivity to financial market interest rates. However, Management intends to retain these debt securities until maturity. Therefore, as at December 31, 2003, Hydro-Québec did not foresee any significant debt repayments that could result in the realization of this fair value.

Hydro-Québec has undrawn revolving standby credits totaling US\$1 500 million and expiring in 2004 and 2006. Any borrowing under these lines of credit will bear interest at a rate based on the London Interbank Offered Rate (LIBOR).

14. OTHER LONG-TERM LIABILITIES

	2003	2002
Accounts payable	281	355
Accrued benefit liability (Note 20)	414	376
Deferred foreign exchange gain	1 138	
Other deferred credits related to debt	173	
Decommissioning of nuclear generation station ^a	205	177
	<u>2 211</u>	<u>908</u>

- a) When Gentilly-2 nuclear generating station was designed, the Corporation planned to operate it for 30 years, until 2013. In 2001, it initiated a draft design study to evaluate whether its useful life could be extended by 25 years through rehabilitation. If the rehabilitation is not carried out, the plant could be decommissioned a few years earlier, depending on technical and economic factors. Pending the decision, the financial statements continue to reflect the end of life in 2013 for purposes of calculating the depreciation and decommissioning costs of the plant. Once the decision is made, future decommissioning and depreciation costs may vary significantly from the amounts reported in these financial statements based on the end-of-life date retained and the increase inherent in the methods used to calculate depreciation and amortization and the costs of decommissioning. As at December 31, 2003, the net book value of Gentilly-2 was \$730 million, and the portion for which a provision remained to be made for future decommissioning costs approximated \$630 million, based on end of life in 2013.

15. PERPETUAL DEBT

Perpetual notes in the amount of US\$340 million (US\$400 million as at December 31, 2002) bear interest at a rate established semiannually based on LIBOR. They are guaranteed by the Québec government and are only redeemable at the Corporation's option. In 2003, a portion amounting to US\$60 million was purchased on secondary markets and then canceled. Also during the year, the perpetual notes ceased to naturally hedge the sales in U.S. dollars. However, various derivative instruments recorded at fair value are used to reduce the exchange risk.

As at December 31, 2003, the fair value of these notes was \$402 million (\$540 million as at December 31, 2002). As at December 31, 2003 and 2002, the LIBOR for perpetual notes was 1.25% and 1.94%, respectively.

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

16. FINANCIAL INSTRUMENTS**Derivative instruments**

Derivative instruments used by Hydro-Québec for hedging purposes are always associated with a reverse risk position.

Hydro-Québec concludes currency swaps in order to manage the foreign exchange risk associated with payments of principal on long-term debt, interest payments and sales in U.S. dollars. Some of these currency swaps allow for interest rate exchanges to change long-term exposure to interest rate risk. Interest rate swaps that do not allow for exchanges of principal are also used to manage this risk.

The valuation of these swaps, with terms through 2030, showed a positive fair value of \$427 million (positive fair value of \$407 million as at December 31, 2002). The following table shows the notional amount of these swaps, expressed in Canadian dollars or other currencies.

	2003 ^a	2002 ^a
Canadian dollars	(1 358)	526
U.S. dollars	(433)	(1 991)
Other currencies		
Yen	39 500	46 500
Euros	673	727
Pounds sterling	240	300
Swiss francs	97	97
Unidades de Fomento (indexed Chilean pesos)	(7)	(7)

a) Figures in parentheses represent amounts to be paid.

In managing short-term financial risks, Hydro-Québec assesses, on an ongoing basis, the overall impact of variations in exchange rates, interest rates and the prices of commodities. Hydro-Québec holds options and forward contracts designed to hedge several positions. It also uses derivative instruments to manage market risks resulting from fluctuations in energy prices. The fair value of these instruments is presented by specific risk in the following table. These derivative instruments mature through June 2006.

The fair value of derivative instruments reflects the amount that Hydro-Québec would receive (financial assets) or pay (financial liabilities) as at the balance sheet date in terminating these instruments.

	2003	2002
Exchange risk		
Foreign exchange forward contracts and options		
Financial assets	11	22
Financial liabilities	(75)	(7)
	(64)	15
Interest rate risk		
Forward rate agreements, options and swaps		
Financial assets	11	7
Financial liabilities	(25)	(101)
	(14)	(94)
Risk of change in energy and commodity prices		
Forward contracts, options and swaps		
Financial assets	12	29
Financial liabilities	(52)	(18)
	(40)	11
	(118)	(68)

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

16. FINANCIAL INSTRUMENTS (cont'd)**Credit risk**

Derivative instruments include an element of risk, since counterparty might not meet its obligations. However, this risk is moderate as Hydro-Québec generally deals with Canadian and international financial institutions with high credit ratings. Credit risk exposure is also reduced by applying a credit policy limiting credit risk concentration and a customer credit risk evaluation program, as well as by adopting credit limits, where necessary. As at December 31, 2003, Hydro-Québec did not foresee any material loss arising from counterparty's default.

In addition, credit risk exposure with respect to trade receivables is limited due to Hydro-Québec's large and diverse client base. Management estimates that Hydro-Québec is not exposed to a major credit risk.

17. INTERESTS IN JOINT VENTURES

The share of the principal joint venture items included in the consolidated financial statements is presented in the following table. These joint ventures specifically include the interest in Noverco Inc. and the Corporation's interests in various foreign joint ventures, mainly through HQL.

	2003	2002
Operations		
Revenue	940	933
Expenditure and financial expenses	883	871
Non-controlling interest	27	29
Net income	<u>30</u>	<u>33</u>
Balance sheet		
Current assets	157	170
Long-term assets	1 553	1 925
Current liabilities	143	213
Long-term liabilities	937	1 102
Non-controlling interest	202	216
Net assets	<u>428</u>	<u>564</u>
Cash flows		
Operating activities	138	156
Investing activities	(134)	(121)
Financing activities	20	(5)
Net change in cash and cash equivalents	<u>24</u>	<u>30</u>

Noverco Inc.

Hydro-Québec holds 41.2% of the outstanding common shares of Noverco Inc. and options on an additional 9.16%. Under the Noverco Inc. shareholders' agreement, it agreed to mechanisms enabling the joint owners to convert their interests into liquidities under certain conditions.

Noverco Inc. disclosed unrecorded future income taxes of \$88 million in 2003 (\$94 million in 2002) on the regulated activities in Gaz Métro, Limited Partnership (GMLP). Taxes on income from regulated activities are recorded using the taxes payable method, since it is expected that future income taxes will be included in the rates approved by Canadian regulatory bodies, i.e. the Régie de l'énergie and the National Energy Board, as thus passed on to customers.

GMLP recognizes pension and other retirement benefits in its statement of operations as the amounts are disbursed, in accordance with regulatory practice.

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

17. INTERESTS IN JOINT VENTURES (cont'd)**Foreign joint ventures**

Hydro-Québec holds interests in joint ventures, primarily through HQI. These joint ventures are essentially involved in the operation and construction of transmission systems and hydroelectric generating stations. They mainly operate in South and Central America and Australia.

18. SHAREHOLDER'S EQUITY

The authorized share capital comprises 50 000 000 shares with a par value of \$100 each, and 43 741 090 shares were issued and paid.

Under the Hydro-Québec Act, any dividends to be paid by the Corporation are declared once a year by the Québec government, which also determines the terms and conditions of payment. For a given fiscal year, they cannot exceed the distributable surplus, equal to 75% of the year's operating income and net investment income, less interest on debt securities and amortization of borrowing discounts and expenses. This calculation is made on the basis of the consolidated financial statements.

However, in respect of a given fiscal year, no dividend may be declared in an amount that would have the effect of reducing the rate of capitalization to less than 25% at the end of the year. The government declares the dividends for a given year within 30 days after the Corporation has sent the government the financial data relative to the distributable surplus. On expiry of the time prescribed, any distributable surplus or part thereof that has not been subject to a dividend declaration may no longer be distributed to the shareholder as a dividend.

For 2003, the Québec government declared dividends of \$965 million, which is less than the maximum permitted.

Dividends declared are deducted from the retained earnings of the year for which they were declared.

19. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2003	2002
Accounts receivable	14	(99)
Materials, fuel and supplies	(8)	7
Accounts payable	103	142
Accrued interest	(185)	(44)
	<u>(76)</u>	<u>6</u>

20. EMPLOYEE FUTURE BENEFITS

The Corporation's pension plan (the "Pension Plan") is a funded plan that ensures pension benefits based on years of service and average five best years of earnings. The post-retirement and post-employment benefits offered by the Corporation also include group life, medical and hospitalization, and salary insurance plans. However, most of these plans are not funded, with the exception of the long-term disability salary insurance plan, which is fully funded, and the supplementary group life insurance plan, which is partially funded.

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

20. EMPLOYEE FUTURE BENEFITS (cont'd)

The following tables present information concerning the defined benefit plans, established by independent actuaries:

	Pension Plan		Other plans	
	2003	2002	2003	2002
Accrued benefit obligation				
Balance at beginning of year	7 937	7 231	564	511
Current service cost	244	220	24	22
Benefit payments and refunds	(329)	(319)	(34)	(31)
Interest on obligation	517	484	36	34
Actuarial losses	98	321	1	28
Adjustments arising from plan amendments	161			
Balance at end of year	8 628	7 937	591	564
Plan assets at fair value				
Balance at beginning of year	8 326	9 149	46	40
Actual return on plan assets	1 246	(480)	1	1
Employee contributions	6	6		
Hydro-Québec's contributions	1		7	12
Benefit payments and refunds	(329)	(319)	(5)	(7)
Administrative fees	(33)	(30)		
Balance at end of year	9 217	8 326	49	46
Surplus (deficit) at end of year	589	389	(542)	(518)
Unamortized past service costs	391	270		1
Unamortized net loss (gain)	1 385	1 766	(7)	(9)
Unamortized transitional obligation (asset)	(1 521)	(1 673)	135	150
Accrued benefit asset (liability)	844	752	(414)	(376)
Significant actuarial assumptions (%)				
Discount rate	6.67	6.58	6.67	6.58
Expected rate of return on plan assets	7.07	7.45	3.31	3.00
Salary escalation rate ^a	3.41	3.15		

a) This rate is a weighted average rate, which takes salary increases into account as well as promotion opportunities while in service.

As at December 31, 2003, health-care costs were based on an annual growth rate of 8.3% in 2004. Thereafter, based on the assumption used, this rate gradually decreases until it reaches the ultimate rate of 3.9% in 2014. A change of 1% in this annual growth rate would have the following impact:

	1% increase	1% decrease
Impact on the cost of services rendered and the interest on the accrued benefit obligation for the year (%)	3	(2)
Impact on the accrued benefit obligation at end of year (%)	30	(24)

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

20. EMPLOYEE FUTURE BENEFITS (cont'd)

Plan assets include securities issued by the Corporation and certain related companies. These securities are grouped under the following asset classes:

	Pension Plan		Other plans	
	2003	2002	2003	2002
Bonds and debentures	547	551		
Shares	26	7		
Short-term investments		27	41	40
	<u>573</u>	<u>585</u>	<u>41</u>	<u>40</u>
Plan expense (credit) for the year				
Current service cost ^a	214	197	24	22
Administrative fees ^b	33	30		
Interest on obligation	517	484	36	34
Expected return on plan assets	(743)	(754)	(1)	(1)
Amortization of transitional obligation (asset)	(152)	(152)	15	14
Amortization of net actuarial loss (gain)			(1)	2
Amortization of past service costs	<u>40</u>	<u>78</u>		
Expense (credit) for the year	<u>(91)</u>	<u>(117)</u>	<u>73</u>	<u>71</u>

a) For the long-term disability salary insurance plan, current service cost corresponds to the cost of new disability cases for the year.

b) Administrative fees chargeable to the Pension Plan are fully billed by the Corporation.

During the year, some amendments were made to the Pension Plan following agreements reached between the Corporation and its unions. These amendments, in effect since January 1, 2004, are for the most part temporary provisions. They mainly affect the bridging annuity and normal retirement annuity, the cost of optional forms of annuity and an extension of the buyback program introduced in 2000.

Beginning in 2004, the Corporation and all its employees will resume contributions to the Pension Plan.

21. COMMITMENTS AND CONTINGENT LIABILITIES**Electricity purchased**

On May 12, 1969, the Corporation signed a contract with Churchill Falls (Labrador) Corporation Limited (CF(L)Co) whereby the Corporation undertook to purchase substantially all the output from Churchill Falls generating station, which has a rated capacity of 5 428 MW. Under this agreement, the Corporation could be required to provide additional funding to service the debt of CF(L)Co and to pay its expenses should CF(L)Co be unable to do so. Expiring in 2016, this contract will be automatically renewed for a further 25 years under agreed-upon terms and conditions. On June 18, 1999, the Corporation and CF(L)Co also entered into a contract to guarantee the availability of 682 MW of additional power until 2041 for the November 1 to March 31 winter period.

As at December 31, 2003, the Corporation was committed under 83 contracts to purchase electricity from other power producers for an installed capacity of about 2 200 MW. It expects to purchase approximately 8.5 TWh of energy annually over the initial term of these contracts, which extend through 2029. The majority of these contracts include renewal clauses.

Guarantees

In the normal course of business, Hydro-Québec grants guarantees to third parties for indemnification purposes, mainly for energy purchase transactions. It also enters into agreements as part of its international operations and in the field of electrotechnology.

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

21. COMMITMENTS AND CONTINGENT LIABILITIES (cont'd)

Guarantees (cont'd)

As at December 31, 2003, the potential maximum amount the Corporation may have to pay under these letters of credit or agreements totaled \$470 million. Of this amount, \$397 million relates to the purchase of energy, and a liability in the amount of \$28 million has been recorded accordingly. Some guarantees expire from 2004 to 2019, and others do not have maturity dates.

Capital expenditures

The Corporation expects to invest approximately \$3 400 million in fixed assets in 2004.

Agreements entered into with Natives and regional county municipalities

Hydro-Québec has entered into various agreements related to capital projects with Natives and regional county municipalities. The amounts paid are based on the work carried out.

Litigation

In the normal course of business, Hydro-Québec is party to claims and legal proceedings. Management is of the opinion that adequate provisions have been made for any disbursements that could stem from these legal actions, and does not foresee any adverse effect of such liabilities on the consolidated financial position or operating results of Hydro-Québec.

22. SEGMENTED INFORMATION

Hydro-Québec has five operating segments, plus Corporate and Other Activities:

Generation: Hydro-Québec Production operates and develops the Corporation's generating facilities in Québec and a number of foreign facilities. It also sells electricity on external markets and engages in energy trading activities. It participates in the Québec wholesale market by responding to calls for tenders from Hydro-Québec Distribution.

Transmission: Hydro-Québec TransÉnergie develops and operates the Corporation's transmission system in Québec, in addition to managing and operating foreign transmission systems and carrying out development projects abroad. The division also manages Hydro-Québec's telecommunications network.

Distribution: Hydro-Québec Distribution develops and operates the Corporation's distribution system and is responsible for sales and service to Québec customers.

Construction: Hydro-Québec Équipement and SEBJ are involved in energy-related engineering services and construction projects in Québec and in other parts of the world.

Oil and Gas: Hydro-Québec Pétrole et gaz comprises all activities related to the pipeline transmission of oil, natural gas and liquid natural gas, as well as gas distribution. Activities arising from the Québec Oil and Gas Exploration Plan 2002-2010 are also included in this segment.

Corporate and Other Activities: Corporate and Other Activities include corporate activities such as financial services, human resources, corporate affairs, the activities of the Shared Services Centre, notably procurement and computer services, and the activities managed by Hydro-Québec Technologie et développement industriel, i.e., research, technical support, industrial development of Hydro-Québec technologies, and capital venturing.

The amounts presented for each segment are based on the financial information used to establish the consolidated financial statements. The accounting policies used to calculate these amounts are as described in note 1.

Intersegment transactions related to electricity sales are recorded based on the supply and transmission rates provided under the Act respecting the Régie de l'énergie. The Act sets a commodity rate for a maximum annual volume of heritage pool electricity of 165 TWh for Québec markets. This volume was almost reached in 2003.

Other intersegment products and services are valued at full cost.

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

22. SEGMENTED INFORMATION (cont'd)

The following tables contain information related to operations and assets by segment as well as geographical information:

Segments

		2003						
	<u>Generation</u>	<u>Transmis- sion</u>	<u>Distribution</u>	<u>Construc- tion</u>	<u>Oil and Gas</u>	<u>Corporate and Other Activities</u>	<u>Inter- segment and Other</u>	<u>Total</u>
Revenue								
External customers	1 511	321	8 661	11	936	(15)		11 425
Intersegment	4 563	2 641	44	1 581 ^a		786	(9 615)	
Depreciation, amortization and decommis- sioning	694	622	437	5	76	82		1 916
Financial expenses	1 171	977	445		85	56		2 734
Net income (loss)	1 741	397	(133)	6	35	(109)	(6)	1 931
Capital expendi- tures (including intangibles)	1 431	1 002	553	4	62	85	(4)	3 133
Total assets	25 218	18 479	9 931	244	1 820	952	1 059 ^b	57 703
2002								
	<u>Generation</u>	<u>Transmis- sion</u>	<u>Distribution</u>	<u>Construc- tion</u>	<u>Oil and Gas</u>	<u>Corporate and Other activities</u>	<u>Inter- segment and Other</u>	<u>Total</u>
Revenue								
External customers	3 638	309	8 180	7	848	19		13 001
Intersegment	4 274	2 734	37	1 112 ^a		720	(8 877)	
Depreciation, amortization and decommis- sioning	828	639	445	4	67	79		2 062
Financial expenses	1 352	1 078	492		85	51		3 058
Net income (loss)	1 563	389	(409)	3	35	(55)		1 526
Capital expendi- tures (including intangibles)	1 033	702	525	8	49	139		2 456
Total assets	24 605	18 268	9 755	251	1 771	984	3 464 ^b	59 098

a) Intersegment revenue generated by the Construction segment includes an amount of \$1 177 million (\$963 million in 2002) that corresponds to capital expenditures in respect of its client segments.

b) Includes assets related to long-term financing that have not been allocated to the operating segments or to Corporate and Other Activities.

HYDRO-QUÉBEC

COMPLEMENTARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

22. SEGMENTED INFORMATION (cont'd)**Geographical information**

	2003		2002	
	Revenue	Fixed assets and goodwill	Revenue	Fixed assets and goodwill
Québec	9 572	48 790	9 040	47 772
Canada, outside Québec	182	29	362	2
United States	1 373	372	3 305	401
Chile	207	1 599	204	1 468
Other countries	91	373	90	353
	<u>11 425</u>	<u>51 163</u>	<u>13 001</u>	<u>49 996</u>

HYDRO-QUÉBEC**MANAGEMENT REPORT**

Hydro-Québec's consolidated financial statements and all additional information contained in the Annual Report are the responsibility of Management and are approved by the Board of Directors. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and in accordance with decisions handed down by the Régie de l'énergie with respect to the transmission and distribution of electricity and the distribution of natural gas in Québec. The financial statements include amounts determined based on Management's best estimates and judgment. Financial information presented elsewhere in the Annual Report is in accordance with the information provided in the financial statements.

Management maintains an internal control system which includes communicating Hydro-Québec's code of ethics and code of conduct to employees, primarily to ensure the proper management of resources and the orderly conduct of business. The objective of this system is to provide reasonable assurance that the financial information is pertinent and reliable and that the assets of Hydro-Québec are adequately recorded and safeguarded. An internal auditing process allows evaluation of the sufficiency and efficiency of control, as well as of Hydro-Québec's policies and procedures. Recommendations ensuing from this process are submitted to Management and the Audit Committee.

The Board of Directors is responsible for corporate governance. It assumes its responsibility for the consolidated financial statements principally through its Audit Committee, composed solely of directors who do not hold full-time positions within the Corporation or in one of its subsidiaries. This committee's mandate is to ensure that the financial statements present fairly Hydro-Québec's financial position, the results of its operations and its cash flows. The Audit Committee meets regularly with Management, the General Auditor and the external auditors to discuss the results of their audits as well as their findings with respect to the integrity and quality of the presentation of Hydro-Québec's financial information and the effectiveness of its internal controls systems. The General Auditor and the external auditors have full and unrestricted access to the Audit Committee, with or without Management's presence.

The consolidated financial statements have been audited jointly by the external auditors, Samson Bélair/Deloitte & Touche s.e.n.c.r.l. and PricewaterhouseCoopers LLP, who were appointed by the shareholder.

André Bourbeau
Chairman of the Board of Directors

André Caillé
President and Chief Executive Officer

Daniel Leclair
Vice-President - Finance and Chief Financial Officer

Montréal, Québec, February 16, 2004

HYDRO-QUÉBEC**AUDITORS' REPORT**

To the Minister of Finance of Québec

We have audited the consolidated balance sheet of Hydro-Québec as at December 31, 2003, and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Hydro-Québec's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Hydro-Québec as at December 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles as described in Note 1. As required by the Auditor General Act (R.S.Q., c. V-5.01), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.
Chartered Accountants

PricewaterhouseCoopers, LLP
Chartered Accountants

Montréal, Québec, February 16, 2004

HYDRO-QUÉBEC PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
as at December 31, 2003
(in millions of dollars)

	<u>2003</u>	<u>2002</u>
INVESTMENTS (Note 3)		
Cash and short-term investments	622	527
Nominal bonds	2 724	2 728
Real return bonds	465	426
Shares		
Canadian dollars	2 879	2 233
U.S. dollars	889	912
Other than North American currencies	1 193	1 051
Mortgage loans	23	36
Real estate investments	405	397
Derivative instruments	12	11
	<u>9 212</u>	<u>8 321</u>
ACCOUNTS RECEIVABLE		
Member contributions	1	
Hydro-Québec's contributions	1	
Interest and dividends	29	29
	<u>9 243</u>	<u>8 350</u>
Less		
ACCOUNTS PAYABLE	<u>26</u>	<u>24</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>9 217</u>	<u>8 326</u>

On behalf of Hydro-Québec,
Yvon Lamontagne
Chairman of the Audit Committee

André Bourbeau
Chairman of the Board

Montréal, Canada
March 12, 2004

HYDRO-QUÉBEC PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended December 31, 2003
(in millions of dollars)

	2003	2002
INCREASE IN ASSETS		
Investment income		
Interest	157	177
Dividends	119	108
	276	285
Changes in the fair values of investments during the year	970	(765)
Contributions		
Members	6	6
Hydro-Québec	1	
	1 253	(474)
DECREASE IN ASSETS		
Benefits payments	303	292
Transfers of values and refunds	26	27
Administrative and management fees	33	30
	362	349
CHANGE IN NET ASSETS DURING THE YEAR	891	(823)
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	8 326	9 149
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	9 217	8 326

HYDRO-QUÉBEC PENSION PLAN**NOTES TO FINANCIAL STATEMENTS**

December 31, 2003

(in millions of dollars)

1. DESCRIPTION OF PLAN

The following description of the Hydro-Québec Pension Plan (the "Plan") is a summary only. For more information, reference must be made to By-law 699 in respect of the Hydro-Québec Pension Plan (the "By-law"), approved by the Government of Québec on August 21, 2002 and effective January 1, 2001. By-law 707 came into effect on January 1, 2004. The resulting amendments were made following agreements in principle reached with the unions in 2003 and are summarized at the end of this note.

a) General

The Hydro-Québec Pension Plan is a contributory defined benefit pension plan based on final pay and is registered with the Régie des rentes du Québec and the Canada Customs and Revenue Agency.

Hydro-Québec is the trustee of the pension fund and, in this capacity, manages the aggregate of the Plan's investments.

b) Funding of the Plan

Member contributions and employer contributions, suspended since May 10, 1999, were reinstated beginning on December 15, 2003 as a result of the actuarial valuation for Plan funding purposes as at December 31, 2002, which presents a funding rate of 108.2%.

The By-law provides for the suspension of member and employer contributions when an actuarial valuation report for the Plan presents a funding rate greater than or equal to 110%. The members and the employer will recommence contributions if an actuarial valuation for Plan funding purposes presents a funding rate that is less than 110%. Member contributions cannot be increased by more than 1% of earnings each year, and employer contributions equal 180% of member contributions. Neither member contributions nor employer contributions may exceed 6.3% of earnings up to the basic exemption established by the Act respecting the Québec Pension Plan, 4.5% of that portion of earnings between the basic exemption and the maximum pensionable earnings and 6.3% of that portion of earnings exceeding the maximum pensionable earnings.

In addition, unless otherwise provided for in the By-law, Hydro-Québec must also pay equalization contributions to make up any unfunded actuarial liability or pay any amount required to ensure solvency of the Plan.

c) Retirement benefits

Retirement benefits are based on an annual pension credit in respect of years of contributory service and the average best years of earnings. Earnings include, for the members, any lump sum paid under the company's Profit Sharing Plan, when only that plan applies. Earnings also include any lump sum related to performance management and provided for under a corporate program or plan (including, if applicable, the company's Profit Sharing Plan), up to a limit of 2/3 of the maximum amount provided for under the corporate program or plan and not exceeding 20% of basic earnings.

The following table presents the main elements of the benefits calculation.

<u>Number of years of contribution</u>	<u>Annual pension credit</u>	<u>Reference period (average earnings)</u>
Before 1966	2.00%	5 years
From 1966 to 1991	2.25%	5 years
From 1992 to 1998, whichever is most advantageous	2.00% 2.25%	3 years 5 years
After 1998	2.25%	5 years

Benefits in respect of years of contribution after 1991 are subject to the limits prescribed in the Income Tax Act and its regulations. After retirement, these benefits are indexed according to a formula based on the consumer price index.

HYDRO-QUÉBEC PENSION PLAN**NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in millions of dollars)

1. DESCRIPTION OF PLAN (cont'd)**c) Retirement benefits (cont'd)**

Normal retirement age is 65. However, as of 55 years of age, members may receive an offset benefit or a normal retirement annuity, in accordance with the provisions of the By-law.

On the 65th birthday of a member, vested benefits are reduced by an amount determined pursuant to the By-law so as to be coordinated with the retirement benefits to be paid by the Régie des rentes du Québec.

A bridging benefit, payable until the age of 65, is also offered to members. The benefit is equal to 0.2% of average earnings over 5 years, up to the average maximum pensionable earnings of the 5 years preceding the date of termination of employment, death or retirement, multiplied by the number of years of contribution to the Plan prior to January 1, 2004.

Temporary provisions

Until December 31, 2003, the Plan offers members the possibility of receiving a normal retirement annuity, regardless of their age, provided that the sum of their age and the number of years of contribution is 80 at the date of termination of employment.

d) Death benefits

In the event of death, benefits are payable to a spouse, eligible children or beneficiaries. Survivor benefits can be payable as an annuity, a refund or transfer of the value of an annuity, or a refund or transfer of member contributions, as appropriate.

Such benefits may not, under any circumstances, be less than the contributions paid by the member, plus interest.

e) Termination benefits (deferred retirement benefits, transfers of values and refunds)

If the member is under 55 years of age at the time of termination of employment, the benefits payable will be the transfer of the actuarial present value of the retirement benefit or a deferred retirement benefit payable when the member reaches the age of 55. If the member is 55 years of age or older at the time of termination of employment, the member may receive an immediate retirement benefit on the first day of the month following termination of employment or a deferred retirement benefit.

Such benefits may not, under any circumstances, be less than the contributions paid by the member, plus interest.

f) Buyback of non-contribution periods

Under the temporary buyback program introduced in 2001, the members whose buyback rights under the program were confirmed had the option of paying a single member contribution amount or spreading the amount payable over a maximum period of 5 years. These amounts are recorded as member contributions.

Temporary provisions

The By-law also provides for the purchase by the members, until December 31, 2003, of various unpaid or partially paid leaves.

g) Transfer agreements

Under the By-law, the employer is permitted to enter into an agreement with any government, corporation or other organization with a pension plan, in order to facilitate reciprocal employee transfers. The amounts received under such agreements are paid to the Plan as member contributions and are used to recognize members' years of contribution to the Plan.

h) Administrative and management fees

According to the provisions of the By-law, administrative and management fees incurred by Hydro-Québec in respect of the Pension Plan are charged to the pension fund.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in millions of dollars)

1. DESCRIPTION OF PLAN (cont'd)**i) Income taxes**

The Plan is a registered pension plan within the meaning of the Income Tax Act and therefore is not subject to income tax.

j) New provisions

By-law 707 came into effect on January 1, 2004. The resulting principal amendments are as follows:

As concerns bridging benefit payable until a member reaches 65 years of age, the years of contribution to the Plan used for computation purposes will now be prior to January 1, 2009;

Beginning January 1, 2004, the Plan will offer designated members and additional bridging benefit, which is discontinued as of the first day of the month following the member's 60th birthday, equal to 0.20% of average earnings over 5 years, up to the average maximum pensionable earnings of each of the 5 years preceding the date of termination of employment, death or retirement, multiplied by the number of years of contribution to the Plan prior to January 1, 2009;

Beginning on January 1, 2004, the Plan will offer designated members pension benefits without reduction with no minimum age specification, provided that the sum of their age and the number of years of contribution is:

81, from January 1, 2004 to December 31, 2004;

82, from January 1, 2005 to December 31, 2005;

83, from January 1, 2006 to December 31, 2006;

84, from January 1, 2007 to December 31, 2007;

85, from January 1, 2008 to December 31, 2008;

A subsidy equivalent to 50% of the cost of optional forms of annuity (60% reversible and guaranteed for 10 years) will be offered to all active designated members who decide to take their retirement between January 1, 2004 and December 31, 2008, inclusively;

Beginning on January 1, 2004, members will be permitted to transfer the value of benefits outside the Plan regardless of their age, provided that annuities have not begun to be paid;

Non-unionized employees active as at May 28, 2003 and unionized employees active as at the date set out in the agreement in principle reached with the unions, and who had elected to buy back years under the temporary buyback program provided for in By-law 699, will be offered the possibility, in 2004, to buy back the difference, if any, between the years bought back and those which could have been bought back had the \$50 million limit not existed;

The program allowing for the buyback of various unpaid or partially paid leaves will be extended until December 31, 2008.

2. SIGNIFICANT ACCOUNTING POLICIES**a) Investments**

Investments are presented at fair value at year-end.

Shares in U.S. dollars and in other than North American currencies comprise investments denominated in foreign currencies, regardless of the residence of the investee.

Cash and short-term investments

Cash and short-term investments (bank deposits, treasury bills, deposit certificates and bankers' acceptances) are shown at cost, which approximates fair value.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in millions of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

a) Investments (cont'd)

Bonds

Bonds are shown at average closing bond market prices.

Shares

Shares are shown at closing market prices. Dividends are recorded at the ex-dividend date.

Mortgage loans

Mortgage loans are shown at quoted fair value.

Real estate investments

Real estate investments are shown at the most recent estimated fair value. An independent appraisal is performed at least once a year.

Derivative instruments

Derivative instruments are shown at the closing price of financial markets. They include forward contracts, options and swap agreements.

b) Foreign currency translation

The fair value of the investments, interest and dividends receivable and cash that are denominated in foreign currencies are translated into Canadian dollars at year-end exchange rates. Revenue resulting from transactions made in foreign currencies is translated into Canadian dollars at exchange rates in effect at the transaction date.

3. MANAGEMENT OF INVESTMENT PORTFOLIO

As trustee, Hydro-Québec has adopted a pension fund investment management policy which sets forth the principles by which Hydro-Québec prudently and diligently manages the investments of its pension fund in accordance with the applicable legislation and in the best interests of the members. This policy presents the benchmark portfolio (or long-term allocation target) based on the Plan's financial characteristics and obligations. Hydro-Québec favours diversifying the investment portfolio to mitigate risk. This policy also allows the prudent use of derivative instruments in order to effectively manage, at the lowest cost, the pension fund's assets and the risks inherent in the investment portfolio.

As at December 31, 2003, 52% (50% as at December 31, 2002) of the investment portfolio was managed by external firms.

Derivative instruments

Derivative instrument contracts are financial contracts, the value of which is based on the value of an underlying asset, interest rate, index or exchange rate.

Forward and future contracts

Firm commitments to take delivery of or to deliver a currency or a specific financial instrument according to the characteristics and prices set out in the contract. These could be forward exchange contracts, or forward commodity contracts, equity or bond futures.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in millions of dollars)

3. MANAGEMENT OF INVESTMENT PORTFOLIO (cont'd)**Options**

Commitments conferring a right rather than an obligation for a holder to take delivery of or to deliver a financial instrument at the stipulated price at a future date or within a specified time frame.

Interest rate swaps

Commitments under which fixed or variable interest payments are swapped for fixed or variable rate interest amounts receivable.

Equity and bond index swaps

Commitments under which fixed or variable rate interest payments are swapped for a return based on changes in certain stock or bond indexes.

The following table present the fair value of Plan investments after allocating the effect of derivative instruments at their fair market value as at December 31, 2003:

	Investments	Derivative instruments	2003	2002
Cash and short-term investments	622	71	693	800
Nominal bonds	2 724	(217)	2 507	2 231
Real return bonds	465		465	426
Shares				
Canadian dollars	2 879	160	3 039	2 468
U.S. dollars	889	(1)	888	913
Other than North American currencies	1 193	(1)	1 192	1 050
Mortgage loans	23		23	36
Real estate investments	405		405	397
	<u>9 200</u>	<u>12</u>	<u>9 212</u>	<u>8 321</u>

Exchange risk

Exchange risk results from Plan investments and derivative instrument contracts denominated in currencies other than the Canadian dollar.

The portfolio managers use forward exchange contracts to manage the exchange risk. As at December 31, 2003, the notional amount of these contracts, established in Canadian dollars according to the exchange rate stipulated in the contracts, was \$560 million and represented a potential unrealized loss of \$2.0 million.

The allocation of total assets at fair market value, presented in accordance with the investment policy criteria, may be summarized as follows:

	2003	2002
Currency		
Canadian dollars	73 %	72 %
U.S. dollars	12	14
Other than North American currencies	<u>15</u>	<u>14</u>
Total	<u>100 %</u>	<u>100 %</u>

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in millions of dollars)

3. MANAGEMENT OF INVESTMENT PORTFOLIO (cont'd)

Equity and bond index swaps (cont'd)

Interest rate risk

Bond fair value is sensitive to changes in market interest rates. For information purposes, as at December 31, 2003, a 1% fluctuation in interest rates would result in a reverse fluctuation of approximately 9.0% (8.3% as at December 31, 2002) in the fair value of the bond portfolio.

Credit risk

As at December 31, 2003, the highest credit risk concentration was attributable to Government of Canada bonds and Treasury Bills. These investments, with a fair value of \$1 566 million, represented 17% (18% as December 31, 2002) of the total investment portfolio.

Derivative instruments include an element of risk since a counterparty may be unable to meet its obligations. However, this is a low risk since Hydro-Québec, as Trustee, deals only with recognized stock exchanges and counterparties with high credit ratings.

Composition of the investment portfolio

The benchmark portfolio, as described in the investment policy, is comprised of debt securities (35%) and equity securities (65%). Debt securities are broken down as follows: nominal bonds (28%), real return bonds (5%), cash and short-term securities (2%). The breakdown for equity securities is as follows: Canadian equities (30%), U.S. equities (15%), other than North American equities (15%) and real estate (5%). The economic sensitivity of an investment vehicle or a group of vehicles, as well as its use in managing the investment portfolio, determine its classification.

The following table summarizes Plan investments at their fair value as at December 31, presented in accordance with the investment policy's classification criteria. For purposes of this table, investments include interest and dividends receivable.

	2003		2002	
	Investments at fair value	Asset composition	Investments at fair value	Asset composition
Debt securities				
Nominal bonds	2 625	28 %	2 561	31 %
Real return bonds	466	5	427	5
Cash and short-term securities	117	1	121	1
Equity securities				
Shares				
Canadian dollars	3 130	34	2 611	30
U.S. dollars	1 143	12	1 063	14
Other than North American currencies	1 350	15	1 141	14
Real estate investments	410	5	426	5
	<u>9 241</u>	<u>100 %</u>	<u>8 350</u>	<u>100 %</u>

4. PENSION OBLIGATIONS

The actuarial consulting firm Groupe-conseil Aon inc. issued a report on the costs and obligations of the Plan for accounting purposes. The report discloses the net assets available for benefits at the fair value, according to the financial statements, and the actuarial present value of accrued retirement benefits as at December 31, 2003.

The actuarial present value of accrued retirement benefits is determined using the projected benefit method prorated on years of service and Hydro-Québec Management's best estimate assumptions with respect to future events.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in millions of dollars)

4. PENSION OBLIGATIONS (cont'd)

Value of net assets available for benefits	9 217
Actuarial present value of accrued benefits	
Balance, at beginning of year	7 918
Accrued interest on accrued benefits	516
Accrued benefits	242
Benefit payments and refunds	(329)
Adjustments arising from plan amendments	161
Adjustment arising from experience gains or losses and from changes in assumptions	100
Balance at end of year	8 608
Excess of value of net assets over actuarial present value of accrued retirement benefits	609
Significant actuarial assumptions	2003
Discount rate	6.67 %
Expected rate of return of Plan assets	7.07
Salary escalation rate ^(a)	3.41

(a) This rate is a weighted average which takes salary increases into account as well as promotion opportunities while in service.

Furthermore, the most recent actuarial valuation of the Hydro-Québec Pension Plan for funding purposes, dated December 31, 2002, states that the value of net assets exceeds the actuarial present value of accrued retirement benefits by \$712 million.

5. RELATED PARTY TRANSACTIONS

The pension fund's investments include securities issued by the companies in the Hydro-Québec Group (Gaz Métropolitain Inc., Enbridge Inc. and Hydro-Québec) and by its shareholder, the province of Québec. These securities represent 6.2% of the net assets available for benefits (7.1% as at December 31, 2002).

6. CONTINGENCIES

A class action suit has been filed against the trustee of the fund, Hydro-Québec in order to have it recognize the right of retired members to a share of the surplus of the Hydro-Québec Pension Plan. On September 5, 2002, the Québec Superior Court dismissed the class action suit brought by the retired members. The retired members have appealed the decision. Management believes it is too early to assess the impact of the suit on the financial position of the Plan.

7. COMPARATIVE FIGURES

Certain figures for the previous year have been reclassified in order to conform to the presentation adopted in the current year.

HYDRO-QUÉBEC PENSION PLAN**AUDITORS' REPORT**

To the Members of the Hydro-Québec Pension Plan

We have audited the statement of net assets available for benefits of the Hydro-Québec Pension Plan as at December 31, 2003 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Hydro-Québec, as the Pension Fund's trustee. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Hydro-Québec's Management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Hydro-Québec Pension Plan as at December 31, 2003 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair,
Deloitte & Touche, s.e.n.c.r.l.
Chartered Accountants

PricewaterhouseCoopers, LLP
Chartered Accountants

Montréal, Canada
February 6, 2004

IMMOBILIÈRE SHQ
(R.S.Q., c. I-0.3)

INCOME AND RETAINED EARNINGS
for the year ended December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
REVENUE		
Consideration receivable from agencies for use of fixed assets	176 684	180 863
Interest earned and other income	34 870	36 116
Compensation to organizations for loss on disposal of fixed assets	504	
Gain on disposal of fixed assets	422	130
Gouvernement du Québec subsidy	<u>700</u>	<u>500</u>
	<u>213 180</u>	<u>217 609</u>
EXPENDITURE		
Interest	168 170	179 587
Amortization	35 878	33 373
Loss on disposal of fixed assets	504	
Dispute settlement		190
Amount remitted to agencies for gain on sale of buildings	808	130
Administrative expenses (Note 3)	<u>700</u>	<u>500</u>
	<u>206 060</u>	<u>213 780</u>
NET INCOME	7 120	3 829
RETAINED EARNINGS, BEGINNING OF YEAR	<u>9 393</u>	<u>5 564</u>
RETAINED EARNINGS, END OF YEAR	<u>16 513</u>	<u>9 393</u>

IMMOBILIÈRE SHQ

BALANCE SHEET
as at December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Fixed assets (Note 4)	1 755 149	1 792 270
Loans (Note 5)	437 380	449 224
Accrued interest on loans	6 831	7 036
Accounts receivable	37 502	37 794
Cash and cash equivalents (Note 6)	<u>14 191</u>	<u>37 859</u>
	<u>2 251 053</u>	<u>2 324 183</u>
LIABILITIES		
Long-term debt (Note 7)	2 081 033	2 154 032
Short-term borrowing (Note 8)	85 786	90 400
Deferred subsidies		
Canada Mortgage and Housing Corporation	5 146	5 194
Gouvernement du Québec	62	65
Interest accrued on debt	48 808	51 411
Accounts payable	<u>175</u>	<u>158</u>
	<u>2 221 010</u>	<u>2 301 260</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 9)	13 530	13 530
Retained earnings	<u>16 513</u>	<u>9 393</u>
	<u>30 043</u>	<u>22 923</u>
	<u>2 251 053</u>	<u>2 324 183</u>

CONTINGENCIES (Note 10)

On behalf of the Board of Directors,
Jean-Luc Lesage, Vice-Chairman
Raymond Larose, Director

IMMOBILIÈRE SHQ

CASH FLOWS
for the year ended December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Cash inflows – organizations	177 480	182 327
Cash inflows – Gouvernement du Québec subsidy	700	550
Cash inflows – other	4	2
Cash payments – dispute settlement		(190)
Cash payments – administrative expenses	(700)	(550)
Cash payments – organizations	(795)	
Interest received	35 024	36 295
Interest paid	<u>(170 773)</u>	<u>(181 259)</u>
	<u>40 940</u>	<u>37 175</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Short-term borrowing		90 400
Repayment of short-term borrowing	(4 614)	
Repayment of long-term debt	<u>(72 999)</u>	<u>(137 148)</u>
	<u>(77 613)</u>	<u>(46 748)</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Encashment on loans	11 844	11 072
Proceeds from disposal of fixed assets	<u>1 161</u>	<u>190</u>
	<u>13 005</u>	<u>11 262</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(23 668)	1 689
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>37 859</u>	<u>36 170</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 6)	<u><u>14 191</u></u>	<u><u>37 859</u></u>

IMMOBILIÈRE SHQ**NOTES TO FINANCIAL STATEMENTS**

as at December 31, 2003

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The purpose of Immobilière SHQ, a legal entity with a partnership fund and an agent of the State, established by the Act respecting Immobilière SHQ (Q.S., 1999, c. 16), is:

- To acquire, with the related rights and obligations, residential buildings, notably those belonging to the Société d'habitation du Québec, and, for a consideration, to make these buildings available to housing offices or other non-profit organizations wishing to operate them;
- To acquire the rights and obligations resulting from loans awarded by the Société d'habitation du Québec to housing offices or other non-profit organizations.

Immobilière SHQ entrusted the Société d'habitation du Québec, legal entity established by a special statute (R.S.Q., c. S-8), with the mandate of administering, for a consideration, its property and the resulting obligations and the mandate of managing the everyday affairs related to this property.

2. ACCOUNTING POLICIES

The financial statements of the Immobilière SHQ have been prepared by Société d'habitation du Québec management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Fixed assets

Fixed assets are recorded at cost.

Amortization

Fixed assets are amortized over a service life varying between 35 and 40 years. Their amortization is calculated according to the annuity method (growing depreciation) at an annual rate of 7.5%.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term investments, highly liquid, that are easily convertible into a known amount of cash, whose value should not change significantly.

3. ADMINISTRATIVE EXPENSES

	2003	2002
Wages and other remuneration	40	42
Management fees (Note 11)	660	458
	<u>700</u>	<u>500</u>

4. FIXED ASSETS

	2003			2002
	Cost	Accumulated depreciation	Net	Net
Land *	101 768		101 768	102 452
Fixed assets	<u>1 782 518</u>	<u>129 137</u>	<u>1 653 381</u>	<u>1 689 818</u>
	1 884 286	129 137	1 755 149	1 792 270

* Immobilière SHQ holds the superficies user's rights, for an unlimited duration, for land belonging to the Ville de Montréal for \$13.7 million.

IMMOBILIÈRE SHQ

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2003
(in thousands of dollars)

5. LOANS

	2003				2002
	from 2007 to 2019	Fixed interest rates maturing		Total	Total
		from 2020 to 2024	from 2025 to 2030		
Loans guaranteed by real estate mortgages, repayable in monthly or annual instalments at an interest rate of:					
6.875%	8 237	65 910		74 147	78 290
7.000% to 7.500%	252	55 198	15 679	71 129	72 658
7.625% to 7.875%	103	108 002	53 302	161 407	165 245
8.000% to 8.625%		35 869	80 674	116 543	118 510
10.500% to 15.125%	1 798		198	1 996	2 054
	10 390	264 979	149 853	425 222	436 757
Unsecured loans, repayable in monthly instalments at an interest rate of:					
6.670%		447		447	462
6.875%		8 860		8 860	9 123
8.000%			2 851	2 851	2 882
		9 307	2 851	12 158	12 467
	10 390	274 286	152 704	437 380	449 224

Encashments receivable over the coming fiscal years on loans are as follows:

2004	10 131
2005	10 918
2006	11 768
2007	12 684
2008	13 596
	59 097
2009 to 2010	30 456
2011 to 2015	99 535
2016 to 2020	141 210
2021 to 2025	91 469
2026 to 2030	15 613
Total	437 380

6. CASH AND CASH EQUIVALENTS

	2003	2002
Cash on hand	7 214	21 490
Short-term investments, at cost 3.07% to 4.25%	6 977	16 369
	14 191	37 859

IMMOBILIÈRE SHQ

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2003
(in thousands of dollars)

7. LONG-TERM DEBT

	2003			2002
	from 2004 to 2006	Fixed interest rates maturing from 2007 to 2014	from 2019 to 2032	Total
Canada Mortgage and Housing Corporation				
Bonds				
5.030% to 6.880%, repayable in monthly instalments	440 745 *	237 178 *		677 923
6.875% to 11% repayable in annual or semi-annual instalments and redeemable in advance		252	373 480	373 732
5.944%, repayable in annual instalments		1 248	314 211	315 459
Loan guaranteed by real estate mortgage, 7.875%, repayable in monthly instalments			578	578
	440 745	238 678	688 269	1 367 692
Other				
Bonds, repayable in annual instalments and insured by the Canada Mortgage and Housing Corporation at interest rate of:				
9.300%	74 830 *			74 830
8.950% to 11.375%		638 063 *		638 063
Term loan, 6.670%, repayable in monthly instalments	448 *			448
	75 278	638 063		713 341
	516 023	876 741	688 269	2 081 033

* At term, the balance owing on these debts will be refinanced.

Assuming that refinancing would occur at term under the same conditions as when the financial statements were signed, the capital payments to make in the coming fiscal years on the long-term debt would be as follows:

2004	48 886
2005	52 652
2006	56 694
2007	61 077
2008	65 730
Amount carried forward	285 039

IMMOBILIÈRE SHQ**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2003

(in thousands of dollars)

7. LONG-TERM DEBT (cont'd)

Amount brought forward	285 039
2009 to 2010	147 308
2011 to 2015	469 523
2016 to 2020	529 822
2021 to 2025	488 611
2026 to 2032	160 730
Total	<u>2 081 033</u>

8. SHORT-TERM BORROWING

Immobilière SHQ is authorized to undertake short-term borrowings from financial institutions and Gouvernement du Québec's Financing Fund to a maximum of \$500 million. At December 31, 2003, Immobilière SHQ had contracted a short-term borrowing of \$85.8 million (2002: \$90.4 million) from the Gouvernement du Québec's Financing Fund.

Any borrowing contracted in keeping with this authorization bears interest at the rate negotiated at the time it was contracted, generally 1.5% less than the prime rate. At December 31, 2003, the rate was 2.809%.

9. CAPITAL STOCK

Immobilière SHQ shares are held by the Minister of Finance.

	<u>2003</u>	<u>2002</u>
Authorized		
150 000 shares with a par value of \$100 each		
Issued and paid up		
135 300 shares	<u>13 530</u>	<u>13 530</u>

10. CONTINGENCIES**Lawsuits**

The balance in damages for court proceedings against Immobilière SHQ totals \$0.7 million. In the opinion of Immobilière SHQ, no liability can result from these proceedings since any loss will be assumed by the housing offices and included in their operating deficit, which is subsidized by the Société d'habitation du Québec.

11. RELATED PARTY TRANSACTIONS

During the year, Immobilière SHQ carried out transactions with related parties. The amount of these transactions and the resulting balances in the financial statement at year-end are as follows:

	<u>2003</u>	<u>2002</u>
Société d'habitation du Québec		
Management fees	660	458

IMMOBILIÈRE SHQ**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2003

(in thousands of dollars)

11. RELATED PARTY TRANSACTIONS (cont'd)

	2003	2002
Société de gestion immobilière – SHQ		
Consideration payable by organizations for use of fixed assets	2 426	2 578
Accounts receivable	384	393
Corporation d'hébergement du Québec		
Interest and other income	2 709	2 759
Loans	35 539	35 931
Interest accrued on loans	1 327	1 342

In addition to the related party transactions disclosed in its financial statements, measured at exchange value, Immobilière SHQ is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. Immobilière SHQ did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

12. FINANCIAL INSTRUMENTS**Interest rate risk**

The interest rate risk is minimal since the interest rates and terms of the loans and long-term debt to which they apply are the same for all intents and purposes.

The interest rates risk for the long-term debt for fixed assets belonging to Immobilière SHQ is also minimal since the consideration payable by agencies for the use of these fixed assets equals the amount of capital, interest, costs and related amounts for all long-term debts and short-term borrowings contracted to finance the acquisition, construction or renovation of these fixed assets.

Credit risk

Immobilière SHQ's exposure to credit risk in relation to assets is limited, given the large number of organizations comprising its clientele. Moreover, most of these organizations receive subsidies from the Gouvernement du Québec.

Fair value of financial instruments*Loans*

The fair value of loans cannot be estimated given the lack of a market for this type of loan. These loans are at fixed rates for the remaining periods, generally more than 20 years.

Long-term debt

At December 31, 2003, the fair value of Immobilière SHQ's \$2 081 million (2002: \$2 154 million) long-term debt was \$2 309 million (2002: \$2 395 million), given the discounting of cash flows at comparable market rates for similar fixed-rate shares. However, in the above-mentioned fair value, \$688 million (2002: \$728 million) was not assessed and was considered at book value, given the lack of a market for this type of long-term debt. These long-term debts have guaranteed rates for periods generally spanning between 20 and 30 years.

IMMOBILIÈRE SHQ

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2003
(in thousands of dollars)

12. FINANCIAL INSTRUMENTS (cont'd)**Fair value of financial instruments** (cont'd)*Other asset and liabilities*

The fair value of cash, short-term investments, accounts receivable, the short-term borrowing, interest charges and accounts payable is equivalent to their book value, given that they mature in the near future.

13. COMPARATIVE FIGURES

Certain 2002 figures were reclassified for consistency with the presentation adopted in 2003.

IMMOBILIÈRE SHQ**MANAGEMENT'S REPORT**

In keeping with the management agreement between the Société d'habitation du Québec and Immobilière SHQ, the financial statements of Immobilière SHQ were drawn up by management, which is responsible for providing complete, accurate data, notably significant judgements and estimates. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial position and the financial statements.

To fulfil its mandate, the Société d'habitation du Québec maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that property is protected and transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management performs periodic audits to ensure that internal controls are applied properly, uniformly and on an ongoing basis.

Immobilière SHQ recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. The board of directors oversees the manner in which the Société d'habitation du Québec performs its financial reporting duties, meets with the latter and the auditor general, reviews the financial statements and approves them.

The Auditor General of Québec has audited Immobilière SHQ's financial statements for the fiscal year ended December 31, 2003 in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

I am in a position to confirm that the Société d'habitation du Québec has properly met all of the obligations and commitments stipulated in the management contract.

Pierre Cliche
President and Director General,
Société d'habitation du Québec

Québec, March 5, 2004

IMMOBILIÈRE SHQ**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of the Immobilière SHQ as at December 31, 2003 and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Immobilière SHQ. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, Immobilière SHQ's financial position as at December 31, 2003 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 5, 2004

INSTITUT DE LA STATISTIQUE DU QUÉBEC
(R.S.Q., c. I-13.011)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Gouvernement du Québec subsidies	\$16 416 700	\$15 956 300
Services rendered	6 464 360	7 729 059
Other revenue	<u>170 755</u>	<u>120 494</u>
	<u>23 051 815</u>	<u>23 805 853</u>
EXPENDITURE		
Salaries and fringe benefits	16 655 829	15 880 191
Professional fees	1 004 725	1 248 309
Rent	1 802 516	1 666 970
Computer services and supplies	630 124	745 054
Purchase of statistical data	349 746	332 231
Communications	313 722	342 980
Travel and accommodation expenses	282 941	446 290
Office expenses	163 425	198 429
Printing costs	161 598	190 338
Training costs	114 306	54 387
Depreciation of fixed assets	983 097	914 068
Other expenses	<u>61 749</u>	<u>48 647</u>
	<u>22 523 778</u>	<u>22 067 894</u>
EXCESS REVENUE OVER EXPENDITURE	528 037	1 737 959
SURPLUS (DEFICIT), BEGINNING OF YEAR	<u>276 408</u>	<u>(1 461 551)</u>
SURPLUS, END OF YEAR	<u><u>\$804 445</u></u>	<u><u>\$276 408</u></u>

INSTITUT DE LA STATISTIQUE DU QUÉBEC

BALANCE SHEET
as at March 31, 2004

	2004	2003
ASSETS		
Current assets		
Cash on hand	\$5 136 101	\$3 909 112
Accounts receivable	1 446 185	1 435 945
Amounts receivable from the Gouvernement du Québec (Note 3)	266 199	266 199
Work under way	159 102	431 274
Prepaid expenses	205 276	244 442
Inventory	31 877	39 253
	<u>7 244 740</u>	<u>6 326 225</u>
Amounts receivable from the Gouvernement du Québec (Note 3)	279 217	545 416
Fixed assets (Note 4)	<u>4 991 759</u>	<u>5 322 490</u>
	<u>\$12 515 716</u>	<u>\$12 194 131</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$1 082 036	\$1 249 198
Client advances on service contracts	492 210	272 335
Deferred revenue	3 045 702	3 486 476
Vacation pay owing to employees	1 769 816	1 652 539
	<u>6 389 764</u>	<u>6 660 548</u>
Deferred subsidy	2 151 186	2 304 070
Provision for sick leave (Note 6)	<u>3 170 321</u>	<u>2 953 105</u>
	11 711 271	11 917 723
SURPLUS	<u>804 445</u>	<u>276 408</u>
	<u>\$12 515 716</u>	<u>\$12 194 131</u>

Yvon Fortin
Director General of
the Institut de la statistique du Québec

INSTITUT DE LA STATISTIQUE DU QUÉBEC

CASH FLOWS

for the year ended March 31, 2004

	2004	2003
OPERATING ACTIVITIES		
Excess revenue over expenditure	\$528 037	\$1 737 959
Adjustments for:		
Depreciation of fixed assets	983 097	914 068
Increase in the provision for sick leave	217 216	143 484
Loss on disposal of fixed assets	11 466	11 466
	<u>1 728 350</u>	<u>2 806 977</u>
Variation in non-cash elements linked to operations		
Variation in accounts receivable	(10 240)	1 242 334
Variation in work under way	272 172	(250 487)
Variation in prepaid expenses	39 166	(140 103)
Variation in inventories	7 376	(17 589)
Decrease in amounts receivable from the Gouvernement du Québec	266 199	266 199
Decrease in accounts payable and accruals	(167 162)	(88 416)
Increase in advances from clients on service contracts	219 875	140 195
Decrease in deferred revenue	(440 774)	(513 810)
Increase in vacation pay owing to employees	117 277	45 866
Variation in deferred subsidy	<u>(152 884)</u>	<u>921 644</u>
Cash flows provided by operating activities	<u>1 879 355</u>	<u>4 412 810</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(652 366)	(1 821 846)
Proceeds from disposal of fixed assets	<u>9 500</u>	<u>9 500</u>
Cash flows provided by investment activities:	<u>(652 366)</u>	<u>(1 812 346)</u>
INCREASE IN CASH ON HAND	1 226 989	2 600 464
CASH ON HAND, BEGINNING OF YEAR	<u>3 909 112</u>	<u>1 308 648</u>
CASH ON HAND, END OF YEAR	<u>\$5 136 101</u>	<u>\$3 909 112</u>

INSTITUT DE LA STATISTIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

The Institut de la statistique du Québec was established by the Act respecting the Institut de la statistique du Québec (R.S.Q., c. I-13.011). Its purpose is to supply reliable, objective statistical information on the situation in Québec regarding all aspects of Québec society for which such information is relevant.

2. ACCOUNTING POLICIES

The Institut's financial policies were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Work in progress

Work in progress is assessed according to the headway that has been made.

Inventories

Publication inventories are evaluated at the lower of cost or market method.

Fixed assets

Fixed assets are recorded at acquisition cost and are depreciated over their service lives according to the straight-line method and at the following rates:

	Rate
Leasehold improvements	10%
Furniture	20%
Equipment	33 1/3%
Data processing equipment	33 1/3%
Computer development	20%
Software	33 1/3%
Telephone system	33 1/3%

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Institut lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Subsidy recording

The Gouvernement du Québec subsidy for the acquisition of fixed assets is recorded as a deferred subsidy and entered under operations using the same method and amortization rates as subsidized fixed assets.

3. AMOUNTS RECEIVABLE FROM THE GOUVERNEMENT DU QUÉBEC

Amounts receivable from the Gouvernement du Québec bear no interest. The long-term portion in the amount of \$279 217 will be received in 2006.

INSTITUT DE LA STATISTIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2004**4. FIXED ASSETS**

	2004		2003
	Cost	Accumulated depreciation	Net
Leasehold improvements	\$558 777	\$172 715	\$386 062
Furniture	341 137	212 423	128 714
Equipment	39 075	34 071	5 004
Data processing equipment	1 551 269	1 200 602	350 667
Computer development	5 255 564	1 176 963	4 078 601
Software	99 382	78 844	20 538
Telephone system	236 822	214 649	22 173
	<u>\$8 082 026</u>	<u>\$3 090 267</u>	<u>\$4 991 759</u>
			<u>\$5 322 490</u>

5. AUTHORIZED CREDIT MARGIN

The Institut has rotating credit of \$2 000 000 with the Consolidated Revenue Fund. Advances bear interest at the National Bank of Canada's prime rate and mature on March 31, 2008. At March 31, 2004, no advance had been contracted.

6. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Institut participate in the Government and Public Employees Retirement Plan (RREGOP), Retirement Plan for Senior Officials (RPSO), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Institut's contributions charged to the year-end statement amount to \$508 696 (2003: \$498 152). The Institut's liability towards the Government plans is restricted to its contributions as an employer.

Provision for sick leave

	2004	2003
Opening balance	\$2 953 105	\$2 809 621
Charge for the year	727 465	420 912
Benefits paid during the year	(510 249)	(277 428)
Closing balance	<u>\$3 170 321</u>	<u>\$2 953 105</u>

7. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value, given that they mature in the near future.

The fair value of amounts receivable from the Gouvernement du Québec cannot be evaluated, given the lack of market for this type of instrument.

INSTITUT DE LA STATISTIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2004**8. RELATED PARTY TRANSACTIONS**

	<u>2004</u>	<u>2003</u>
Services rendered	\$5 725 921	\$7 157 006
Accounts receivable	1 268 809	1 160 343
Work under way	62 202	415 216
Accounts payable and accruals	90 184	29 684
Clients advances on service contracts	490 040	272 335
Deferred revenue	2 980 708	3 467 879

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Institut is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Institut did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

INSTITUT DE LA STATISTIQUE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Institut de la statistique du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Institut de la statistique du Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Institut's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Yvon Fortin
Director General of the Institut de la statistique du Québec

Québec, June 4, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Institut de la statistique du Québec as at March 31, 2004 and the statements of revenue and expenditure and surplus and cash flows for the year then ended. These financial statements are the responsibility of Institut management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Institut's financial position as at March 31, 2004 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 4, 2004

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC
(R.S.Q., c. I-13.02)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended June 30, 2003

	<u>2003</u>	<u>2002</u>
REVENUE		
Gouvernement du Québec subsidy (Note 3)	\$16 616 638	\$15 851 587
Retraining, vocational upgrading and customized training	805 018	486 127
Regular instruction	374 577	354 587
Food services (Note 4)	1 562 771	1 869 745
Lodging (Note 4)	1 065 735	1 336 736
Interest on investments	209 698	180 560
Professional services	1 333 107	1 175 275
Other revenue	466 277	440 149
	<u>22 433 821</u>	<u>21 694 766</u>
EXPENDITURE		
Salaries and fringe benefits	12 957 081	12 161 241
Education and administrative supplies	2 201 299	2 226 475
Maintenance, repairs and public services	1 162 022	1 177 529
Ancillary services	1 416 218	1 356 906
Financial expenses	48 245	48 733
Property and other taxes	1 046 633	1 041 606
Instructors, lecturers and student assistance	1 555 256	1 608 046
Communications and travelling	502 952	492 369
Loss on write-off of fixed assets	122 200	
Other administrative expenses	277 252	178 453
Depreciation of fixed assets	1 181 248	1 177 490
	<u>22 470 406</u>	<u>21 468 848</u>
EXCESS EXPENDITURE OVER REVENUE	(36 585)	225 918
SURPLUS, BEGINNING OF YEAR	<u>692 364</u>	<u>466 446</u>
SURPLUS, END OF YEAR (Note 5)	<u>\$655 779</u>	<u>\$692 364</u>

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

BALANCE SHEET
as at June 30, 2003

	2003	2002
ASSETS		
Current assets		
Cash on hand		\$207 511
Short-term investments (Note 6)	\$2 233 788	6 481 581
Accounts receivable and accrued interest (Note 7)	636 673	923 171
Inventory (Note 8)	263 086	267 443
Prepaid expenses	594 763	649 531
Gouvernement du Québec subsidy receivable	9 550	281 123
	<u>3 737 860</u>	<u>8 810 360</u>
Gouvernement du Québec subsidy receivable	2 959 248	
Portfolio investments, at cost (Note 9)	1 076 917	1 284 093
Fixed assets (Note 10)	<u>11 923 143</u>	<u>10 026 849</u>
	<u>\$19 697 168</u>	<u>\$20 121 302</u>
LIABILITIES		
Current liabilities		
Bank overdraft	\$33 239	
Accounts payable and accruals	2 187 656	\$2 442 286
Prepaid subsidies (Note 3)	510 967	5 849 366
	<u>2 731 862</u>	<u>8 291 652</u>
Accrued expenses related to fixed assets (Note 10)	2 959 248	
Deferred contributions (Note 11)	11 224 068	9 201 659
Provision for sick leave (Note 13)	<u>1 474 484</u>	<u>1 283 900</u>
	<u>18 389 662</u>	<u>18 777 211</u>
EQUITY		
Gouvernement du Québec contribution	651 727	651 727
Surplus (Note 5)	655 779	692 364
	<u>1 307 506</u>	<u>1 344 091</u>
	<u>\$19 697 168</u>	<u>\$20 121 302</u>

On behalf of the Board of Directors,
Raymond Larivée, President
Robert Gagnon, Vice-President and President of the Audit Committee

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

CASH FLOWS

for the year ended June 30, 2003

	2003	2002
OPERATING ACTIVITIES		
Excess expenditure over revenue	\$(36 585)	\$225 918
Adjustments for:		
Loss on write-off of fixed assets	122 200	
Amortization of fixed assets	1 181 248	1 177 490
Amortization of deferred contributions	(1 016 578)	(1 006 659)
Amortization of premiums on purchase of investments	8 357	1 061
Change in the provision for sick leave	190 584	168 183
	<u>449 226</u>	<u>565 993</u>
Change in non-cash items related to operations:		
Decrease (increase) in accounts receivable and accrued interest	286 498	(394 087)
Decrease in inventory	4 357	6 165
Decrease in prepaid expenses	54 768	22 426
Variation in Gouvernement du Québec subsidies receivable and/or collected in advance	(5 066 826)	7 533 743
Decrease in accounts payable and accruals	(254 630)	(2 012 201)
Increase in deferred contributions	3 038 987	82 426
	<u>(1 936 846)</u>	<u>5 238 472</u>
Cash flows (used for) provided by operating activities	<u>(1 487 620)</u>	<u>5 804 465</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(3 199 742)	(160 043)
(Sale) acquisition of long-term investments	198 819	(1 285 154)
Proceeds from the sale of fixed assets		4 307
Cash flows used for investment activities	<u>(3 000 923)</u>	<u>(1 440 890)</u>
DECREASE (INCREASE) IN CASH AND CASH EQUIVALENTS	<u>(4 488 543)</u>	<u>4 363 575</u>
CASH AND CASH EQUIVALENT, BEGINNING OF YEAR	<u>6 689 092</u>	<u>2 325 517</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 14)	<u><u>\$2 200 549</u></u>	<u><u>\$6 689 092</u></u>

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS June 30, 2003

1. CONSTITUTION AND PURPOSE

The Institut de tourisme et d'hôtellerie du Québec is a corporation established under a special act (R.S.Q., c. I-13.02) to provide vocational training in the fields of hotel management, restaurant services and tourism, and to conduct research, supply technical assistance, produce information and provide services in those fields.

Sums received by the Institut must be used to discharge its obligations and, at the Government's request, the balance must be paid into the Consolidated Revenue Fund.

Under its incorporating legislation, the Institut is an agent of the Government and, as such, is not subject to income tax.

2. ACCOUNTING POLICIES

The financial statements of the Institut were prepared by management on the accrual basis in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is calculated according to the first in, first out (FIFO) method.

Gouvernement du Québec subsidy receivable

Subsidies receivable for fixed assets are recorded in the fiscal year in which the Institut obtained the funding entitling it to these subsidies or in which the work was done.

Fixed assets

Fixed assets are recorded at cost and depreciated over their estimated service life according to the straight-line method at the following annual rates:

Building	4%
Permanent leasehold improvements	10%
Kitchen equipment and technical material	10%
Computer equipment and software	20%
Computer-related developments	20%
Rolling stock	25%

Deferred contributions

Contributions for the acquisition of fixed assets that can be amortized are deferred and transferred to revenues using the same method and rates as those used to amortize the fixed assets to which they correspond.

Investments

Short-term investments are recorded at the lesser of cost or market value. Portfolio investments are recorded at cost.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Institut lacks sufficient information to apply the accounting procedure for defined-benefit plans.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2003

3. GOUVERNEMENT DU QUÉBEC SUBSIDY

	2003	2002
Received	\$10 640 173	\$21 197 868
Receivable at the end of the fiscal year		
Operations	9 550	281 123
Fixed assets	2 959 248	
Deferred from the previous year		
Prepaid subsidies		
Operations	5 406 550	
Fixed assets	442 816	528 341
Deferred contributions	9 053 159	9 950 192
	<u>28 511 496</u>	<u>31 957 524</u>
Receivable at the beginning of the fiscal year		
Operations	281 123	1 203 412
Deferred to the following year		
Prepaid subsidies		
Operations		5 406 550
Fixed assets	510 967	442 816
Deferred contributions		
Fixed assets	<u>11 102 768</u>	<u>9 053 159</u>
	<u>11 894 858</u>	<u>16 105 937</u>
	<u>\$16 616 638</u>	<u>\$15 851 587</u>

4. RESTAURANT AND ACCOMMODATION SERVICES

The Hotel's commercial activities were interrupted as of May 1, 2003 due to requalification work. These activities should start up again in fall 2004.

5. SURPLUS

The cumulated surplus as at June 30, 2003 was allocated to financing amortizable fixed assets not financed by deferred contributions. Amortization costs related to these fixed assets represent \$699 075 and will be posted to future fiscal years.

6. SHORT-TERM INVESTMENTS

Short-term investments, comprising bonds and deposits that are cashable any time maturing between July 2003 and April 2004, bear interest at fixed rates varying between 5.15% et and 8%.

The Institut received \$40 000 from a foundation to administer a bursary program reserved for student training sessions. At June 30, 2003, \$62 465 was included under short-term investments. This amount was composed of capital and interest income. At June 30, 2003, a \$696 bursary had been paid.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2003**7. ACCOUNTS RECEIVABLE AND ACCRUED INTEREST**

	2003	2002
Tax receivable	\$16 857	\$775
Retraining, vocational upgrading and customized education	301 248	273 668
Regular instruction		80 143
Lodging and food services	22 751	226 329
Accrued interest on investments	52 081	121 761
Other	243 736	220 495
	<u>\$636 673</u>	<u>\$923 171</u>

8. INVENTORY

	2003	2002
Small equipment	\$46 322	\$56 785
Maintenance supplies and tools	99 977	96 037
Food and beverages	116 787	114 621
	<u>\$263 086</u>	<u>\$267 443</u>

9. PORTFOLIO INVESTMENTS

Investments, comprising bonds maturing between 2005 and 2012, bear interest at rates varying between 5.65% and 6.5%. These amounts of money are reserved for financing the provisions for employee sick leave.

10. FIXED ASSETS

	2003		2002	
	Cost	Accumulated Depreciation	Net	Net
Land	\$795 900		\$795 900	\$795 900
Buildings *	10 997 869	\$5 519 980	5 477 889	5 828 164
Permanent leasehold improvements *	9 955 040	5 726 540	4 228 500	2 329 041
Kitchen equipment and technical material *	2 299 980	1 114 822	1 185 158	844 267
Computer equipment and software	1 042 222	809 804	232 418	212 228
Computer-related developments				17 249
Rolling stock	26 228	22 950	3 278	
	<u>\$25 117 239</u>	<u>\$13 194 096</u>	<u>\$11 923 143</u>	<u>\$10 026 849</u>

* Fixed assets include unamortized projects under way for \$3 219 221.

On May 29, 2002, the Gouvernement du Québec authorized the Institut to carry out a \$36 000 000 project to requalify its building. This project will be funded from a borrowing used to repay the cost of the construction management work done by the Société immobilière du Québec. The cost of the work in progress, not yet invoiced but performed by the Société immobilière du Québec in the fiscal year ending June 30, 2003, was recorded to liabilities in the amount of \$2 959 248.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2003

11. DEFERRED CONTRIBUTIONS

Deferred contributions include the non-amortized portion of the contributions received for fixed assets in the form of subsidies from the Gouvernement du Québec or other agencies.

	<u>2003</u>	<u>2002</u>
Gouvernement du Québec		
Opening balance	\$9 053 159	\$9 950 192
Gouvernement du Québec subsidy	3 038 987	82 426
Amortization of the deferred contribution	<u>(989 378)</u>	<u>(979 459)</u>
Closing balance	<u>11 102 768</u>	<u>9 053 159</u>
Other		
Opening balance	148 500	175 700
Amortization of the deferred contribution	<u>(27 200)</u>	<u>(27 200)</u>
Closing balance	<u>121 300</u>	<u>148 500</u>
	<u>\$11 224 068</u>	<u>\$9 201 659</u>

12. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Institut is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Institut did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

13. FRINGE BENEFITS**Pension plans**

The staff members of the Institut participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) and Teachers Pension Plan (TPP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Institut's contributions charged to the year amount to \$393 506 (2002: \$425 146). The Institut's liability towards these Government plans is restricted to its contributions as an employer.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2003**13. FRINGE BENEFITS (cont'd)**

	<u>2003</u>	<u>2002</u>
Provision for sick leave		
Opening balance	\$1 283 900	\$1 115 717
Charge for the year	732 813	375 375
Benefits paid during the year	<u>(542 229)</u>	<u>(207 192)</u>
Closing balance	<u>1 474 484</u>	<u>1 283 900</u>
Provision for vacation time		
Opening balance	1 017 967	888 358
Change for the year	<u>187 218</u>	<u>129 609</u>
Closing balance	<u>1 205 185</u>	<u>1 017 967</u>
	<u><u>\$2 679 669</u></u>	<u><u>\$2 301 867</u></u>

14. CASH FLOWS

The cash and cash equivalents shown in the cash flow statement include the following amounts recorded in the balance sheet:

	<u>2003</u>	<u>2002</u>
Bank overdraft (cash on hand)	\$(33 239)	\$207 511
Short-term investments	<u>2 233 788</u>	<u>6 481 581</u>
	<u><u>\$2 200 549</u></u>	<u><u>\$6 689 092</u></u>

15. FINANCIAL INSTRUMENTS

The fair market value of short-term investments is \$2 233 788. The fair value of the other short-term financial instruments is equal to their book value given that they mature in the near future.

The fair value of portfolio investments is \$1 142 890. The fair value of the Gouvernement du Québec subsidy receivable and accrued expenses related to fixed assets cannot be estimated given the lack of a market for this type of instrument.

16. COMPARATIVE FIGURES

Certain 2002 figures were reclassified for consistency with the presentation adopted in 2003.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Institut de tourisme et d'hôtellerie were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Institut recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Institut's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Lucille Daoust
Director General

Julien Girard, CGA
Head of Financial Resources
and Procurement

Montréal, September 5, 2003

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Institut de tourisme et d'hôtellerie du Québec as at June 30, 2003 and the statements of revenue and expenditure and surplus and cash flows for the year then ended. These financial statements are the responsibility of Institut management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Institut's financial position as at June 30, 2003 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, CA
Acting Auditor General of Québec

Québec, September 5, 2003

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC
(R.S.Q., c. I-13.1.1)

INCOME
for the year ended March 31, 2004

	2004			2003		
	Regular activities	Special projects	Total	Regular activities	Special projects	Total (Note 3)
REVENUE						
Gouvernement du Québec subsidies	\$23 387 744	\$6 745 376	\$30 133 120	\$21 917 551	\$5 625 451	\$27 543 002
Government of Canada subsidies		578 800	578 800		362 453	362 453
Sales of services	739 471	2 082 312	2 821 783	755 243	1 857 200	2 612 443
Other revenue	44 584	1 069 233	1 113 817		493 198	493 198
Amortization of deferred contributions	284 155	658 514	942 669	289 111	519 508	808 619
Interest	230 815		230 815	170 264		170 264
	<u>24 686 769</u>	<u>11 134 235</u>	<u>35 821 004</u>	<u>23 132 169</u>	<u>8 857 810</u>	<u>31 989 979</u>
EXPENDITURE						
Salaries and fringe benefits	13 160 980	4 927 581	18 088 561	13 136 540	4 208 987	17 345 527
Medical and laboratory supplies	1 342 627	2 000 423	3 343 050	1 192 755	1 683 899	2 876 654
Professional and administrative services	916 711	2 145 937	3 062 648	771 710	1 742 808	2 514 518
Contribution to operating expenses of the national public health component of the health and social services network	2 854 731		2 854 731	2 903 430		2 903 430
Premises	2 878 567	280	2 878 847	2 201 245	11 449	2 212 694
Depreciation of fixed assets	1 321 681	554 809	1 876 490	909 081	414 434	1 323 515
Travel expenses	452 892	313 757	766 649	405 849	282 233	688 082
Interest on long-term debt	581 939		581 939	274 296		274 296
Stationery and printing	95 507	358 582	454 089	90 320	54 306	144 626
Office expenses	359 901	86 100	446 001	283 125	94 240	377 365
Maintenance and repairs	330 509	82 293	412 802	344 114	131 195	475 309
Telecommunications	268 720	7 836	276 556	249 543	4 001	253 544
Congress organization costs	5 179	199 193	204 372		129 066	129 066
Training	109 473	33 041	142 514	91 393	23 159	114 552
Documentation	133 455	5 930	139 385	152 438	4 109	156 547
Automotive equipment	63 937	38 903	102 840	65 147	22 850	87 997
Equipment rental	53 078	38 148	91 226	22 855	28 987	51 842
Loss on disposal of fixed assets				21 495		21 495
Committee operation expenses	23 492	27 155	50 647	26 603	22 087	48 690
Insurance	12 625	19 363	31 988	10 387		10 387
Bank charges	11 320	153	11 473	9 765		9 765
General expenses (Note 4)	<u>(294 751)</u>	<u>294 751</u>	<u></u>	<u></u>	<u></u>	<u></u>
	<u>24 682 573</u>	<u>11 134 235</u>	<u>35 816 808</u>	<u>23 162 091</u>	<u>8 857 810</u>	<u>32 019 901</u>
EXCESS REVENUE OVER EXPENDITURE (EXCESS EXPENDITURE OVER REVENUE)	<u>\$4 196</u>	<u></u>	<u>\$4 196</u>	<u>\$(29 922)</u>	<u></u>	<u>\$(29 922)</u>

The notes are an integral part of the financial statements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC**SURPLUS**

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
UNAPPROPRIATED SURPLUS		
Opening balance	\$297 881	\$327 803
Excess revenue over expenditure (Excess expenditure over revenue) for regular activities for the fiscal year	<u>4 196</u>	<u>(29 922)</u>
Closing balance	<u>\$302 077</u>	<u>\$297 881</u>
 APPROPRIATED SURPLUS		
Opening balance already established	\$8 013 393	\$6 086 945
Adjustment following a change in accounting policy (Note 3)	<u>(8 013 393)</u>	<u>(6 086 945)</u>
Closing balance	<u></u>	<u></u>

The notes are an integral part of the financial statements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

BALANCE SHEET
as at March 31, 2004

	2004	2003 (Note 3)
ASSETS		
Current assets		
Cash on hand	\$7 337 357	\$5 872 865
Accounts receivable	668 849	1 104 635
Subsidies receivable (Note 5)	9 939 904	6 244 330
Long-term receivable (Note 6)	107 627	100 554
Prepaid expenses	424 506	41 697
Supply stock - at cost	145 908	130 842
	<u>18 624 151</u>	<u>13 494 923</u>
Subsidies receivable (Note 5)	980 016	256 333
Long-term receivable (Note 6)	352 034	459 934
Fixed assets (Note 7)	<u>15 614 361</u>	<u>11 417 157</u>
	<u>\$35 570 562</u>	<u>\$25 628 347</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals (Note 8)	\$4 087 847	\$4 872 838
Long-term debt maturing in the coming fiscal year (Note 9)	<u>2 340 836</u>	<u>2 478 152</u>
	6 428 683	7 350 990
Deferred proceeds	15 366 222	8 574 112
Long-term debt (Note 9)	9 394 071	5 814 846
Provision for sick leave (Note 11)	540 307	534 591
Deferred contributions	<u>3 539 202</u>	<u>3 055 927</u>
	35 268 485	25 330 466
SURPLUS	<u>302 077</u>	<u>297 881</u>
	<u>\$35 570 562</u>	<u>\$25 628 347</u>

The notes are an integral part of the financial statements.

Richard Massé
Alain Poirier

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

CASH FLOWS

for the year ended March 31, 2004

	2004	2003 (Note 3)
OPERATING ACTIVITIES		
Excess of revenue over expenditure	\$4 196	\$(29 922)
Adjustments for:		
Depreciation of fixed assets	1 876 490	1 323 515
Amortization of deferred contributions	(942 669)	(808 619)
Loss on disposal of fixed assets	21 495	21 495
	938 017	506 469
Change in non-cash elements related to operations		
Decrease (increase) in accounts receivable	435 786	(491 857)
(Increase) decrease in prepaid expenses	(382 809)	17 445
Change in supply stocks	(15 066)	23 597
Increase in subsidies receivable	(4 419 257)	(2 787 191)
Decrease in accounts payable and accruals (Note 8)	(452 681)	(182 257)
Increase in provision for sick leave	5 716	66 282
Increase in deferred proceeds	6 792 110	3 809 355
	1 963 799	455 374
Cash flows provided by operating activities	2 901 816	961 843
INVESTMENT ACTIVITIES		
Acquisition of fixed assets (Note 7)	(2 218 122)	(2 879 171)
Long-term receivable	100 827	89 512
Deposits on acquisition of fixed assets	700 000	700 000
Cash flows used for investment activities	(2 117 295)	(2 089 659)
FINANCING ACTIVITIES		
Repayment of the long-term debt	(745 973)	(299 122)
Long-term debt	1 425 944	1 632 857
Deferred contributions	844 014	844 014
Cash flows provided by financing activities	679 971	2 177 749
INCREASE OF CASH ON HAND	1 464 492	1 049 933
CASH ON HAND, BEGINNING OF YEAR	5 872 865	4 822 932
CASH ON HAND, END OF YEAR	\$7 337 357	\$5 872 865
ADDITIONAL INFORMATION		
Interest paid	\$581 939	\$274 296

The notes are an integral part of the financial statements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

The Institut, established by the Act respecting the Institut national de santé publique du Québec (R.S.Q., chapter I-13.1.1), is a legal person and agent of the State. Its mission is to support the Minister of Health and Social Services and the regional boards established under the Act respecting health services and social services (R.S.Q., c. S-4.2) in carrying out their public health mission. Subsequent to a legislative amendment, as of February 8, 2003, the activities of the Centre anti-poison were transferred to a health and social services network establishment.

2. ACCOUNTING POLICIES

The financial statements of the Institut were prepared by management in accordance with the auditing principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Fixed assets

Fixed assets are recorded at cost and depreciated over their service lives on a straight-line basis at the following rates:

Specialized equipment	10 to 20%
Computer equipment	20 to 33 1/3%
Automotive equipment	10 to 20%
Furnishings and equipment	20 to 40%
Leasehold improvements	20%

Major fit-ups are amortized over a maximum of 15 years using the annuity method (growing endowment) at the corresponding debt rate.

Recording proceeds

Proceeds related to special projects are recorded to results based on the posting of the related charges. Certain subsidies receivable are conditional on approval of the funds by the government.

Deferred proceeds comprise the amounts received and receivable for services not rendered in keeping with contractual agreements.

Deferred contributions

Contributions received for acquisition or in the form of amortizable fixed assets are deferred and transferred to proceeds using the same method and rates as those used to amortize the fixed assets to which they refer.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Institut lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. CHANGE IN ACCOUNTING POLICY

The financial statements for the fiscal year ended March 31, 2003 were adjusted to record proceeds receivable related to special projects and to record their transfer to results based on the posting of the related charges.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2004

3. CHANGE IN ACCOUNTING POLICY (cont'd)

This change in accounting policy, applied retroactively, increases or decreases the following items in the financial statements:

	<u>2003</u>
Assets	
Subsidies receivable	\$2 232 152
Liabilities	
Deferred proceeds	8 574 112
Deferred contributions	1 671 433
Appropriated surplus	(8 013 393)
Revenue	
Gouvernement du Québec subsidies	(2 562 376)
Government of Canada subsidy	(94 259)
Sales of services	282 939
Other revenue	32 813
Amortization of deferred contributions	414 434

4. GENERAL EXPENSES

The general expenses charged to special projects and as recovery for regular activities represents an estimate of the value of the charges for support services offered in the context of the Institut's different special projects.

5. SUBSIDIES RECEIVABLE

	<u>2004</u>	<u>2003</u>
Gouvernement du Québec	\$9 099 800	\$5 339 879
Gouvernement du Canada	1 251 961	282 836
Other	568 159	877 948
	<u>10 919 920</u>	<u>6 500 663</u>
Less: portion maturing in the coming fiscal year		
Gouvernement du Québec	(8 425 260)	(5 339 879)
Gouvernement du Canada	(946 485)	(282 836)
Other	(568 159)	(621 615)
	<u>(9 939 904)</u>	<u>(6 244 330)</u>
	<u>\$980 016</u>	<u>\$256 333</u>

6. LONG-TERM RECEIVABLE

Under a mandate conferred on it by the Ministère de la Santé et des Services sociaux du Québec for the acquisition and operation of a mobile mammogram breast cancer-detection unit, the Institut has a long-term receivable.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2004**6. LONG-TERM RECEIVABLE (cont'd)**

	2004	2003
Long-term receivable, fixed rate of 3.11% (4.45% in 2003) encashable by monthly payments of \$10 011 including capital and interest, maturing in 2005	\$459 661	\$560 488
Less: portion maturing in the coming fiscal year	(107 627)	(100 554)
	<u>\$352 034</u>	<u>\$459 934</u>

Amounts receivable over the next five fiscal years break down as follows based on the assumption that they will be renewed at the same conditions:

2005	\$107 627
2006	111 023
2007	114 525
2008	118 138
2009	8 348
	<u>\$459 661</u>

7. FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Major fit-up	\$10 497 145	\$600 869	\$9 896 276	\$6 108 081
Specialized equipment	4 344 614	1 695 843	2 648 771	2 103 339
Computer equipment	2 825 827	1 509 545	1 316 282	1 303 730
Automotive equipment	984 722	237 571	747 151	848 889
Furnishings and equipment	1 433 792	490 063	943 729	970 923
Leasehold improvements	120 565	58 413	62 152	82 195
	<u>\$20 206 665</u>	<u>\$4 592 304</u>	<u>\$15 614 361</u>	<u>\$11 417 157</u>

Acquisitions totalled \$6 073 697 (2003: \$9 404 367), of which \$1 721 142 (2003: \$2 598 024) was disbursed during the fiscal year. An amount of \$497 080 (2003: \$281 147) was disbursed during the year for acquisitions dating from the previous fiscal year. An amount of \$4 187 882 for major fit-ups, included in the fiscal year's acquisitions, is recorded against a long-term debt of an equivalent amount.

8. ACCOUNTS PAYABLE AND ACCRUALS

	2004	2003
Gouvernement du Québec	\$1 258 992	\$1 938 624
Other	2 828 855	2 934 214
	<u>\$4 087 847</u>	<u>\$4 872 838</u>

Accounts payable and accrued operating costs total \$3 923 077 (2003: \$4 375 758) and costs linked to the acquisition of fixed assets are \$164 770 (2003: \$497 080).

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2004**9. LONG-TERM DEBT**

	<u>2004</u>	<u>2003</u>
Borrowings on notes		
fixed rate of 3.11% (4.45% in 2003), repayable in monthly instalments of \$10 011 including capital and interest, maturing in 2005	\$451 313	\$552 059
fixed rate of 3.11% (4.18% in 2003), repayable in monthly instalments of \$24 998 including capital and interest, maturing in 2005	1 387 317	1 632 857
Borrowings from the Société immobilière du Québec		
fixed rate of 6.08%, repayable in monthly instalments of \$52 582 including capital and interest, maturing in 2018	5 739 709	6 012 651
fixed rate of 6.08%, repayable in monthly instalments of \$2 128 including capital and interest, maturing in 2008	75 137	95 431
fixed rate of 5.52%, repayable in monthly instalments of \$34 263 including capital and interest, maturing in 2019	<u>4 081 431</u>	
	11 734 907	8 292 998
Less: portion maturing in the coming fiscal year	<u>(2 340 836)</u>	<u>(2 478 152)</u>
	<u>\$9 394 071</u>	<u>\$5 814 846</u>

Amounts payable over the next five fiscal years break down as follows based on the assumption that they will be refinanced on certain borrowings at the same conditions:

2005	\$2 340 836
2006	532 479
2007	564 582
2008	579 079
2009	607 242

10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at book value, the Institut is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Institut did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2004

11. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Institut participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Institut's contributions charged to the year-end statement amount to \$524 999 (2003: \$461 968). The Institut's liability towards the Government plans is restricted to its contributions as an employer.

Provision for sick leave

	<u>2004</u>	<u>2003</u>
Opening balance	\$534 591	\$468 309
Charge for the year	397 074	505 755
Benefits paid during the year	<u>(391 358)</u>	<u>(439 473)</u>
Closing balance	<u><u>\$540 307</u></u>	<u><u>\$534 591</u></u>

12. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments and the long-term receivable is equivalent to the book value, given that they mature in the near future. The fair value of the long-term debt is equivalent to the book value, given that it matures in the near future or the slight fluctuation in the interest rate since it was incurred.

13. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Institut national de santé publique du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Institut recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Institut's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Richard Massé, M.D.
President and Chief Executive Officer

Jean-Louis Coulombe, CMA
Director of Financial and Material Resources

Québec, June 25, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Institut national de santé publique du Québec as at March 31, 2004 and the statements of income and surplus and cash flows for the year then ended. These financial statements are the responsibility of Institut management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Institut's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 25, 2004

INVESTISSEMENT QUÉBEC
(R.S.Q., c. I-16.1)

CONSOLIDATED STATEMENT OF INCOME AND SURPLUS
for the fiscal year ended March 31,
(in thousands of dollars)

	2004	2003
Interest income and interest contribution from the Québec government (Note 15)	98 699	63 903
Risk premiums		
Stock options	4 150	5 288
Other	3 055	2 412
Guarantee fees	12 525	11 360
Commitment fees	7 666	7 722
Gain on disposal of shares	508	222
Gain on disposal of investments	504	
Share of earnings distributed by a limited partnership	417	266
Other income	2 605	1 113
	<u>130 129</u>	<u>92 286</u>
Interest charges (Note 16)	(36 951)	(26 119)
Fees to financial intermediaries	<u>(17 747)</u>	<u>(10 435)</u>
NET INCOME BEFORE PROVISION FOR LOSSES AND THE FOLLOWING ITEMS	75 431	55 732
Provision for losses (Note 9)	(273 023)	(141 277)
Provision for losses recoverable from the Québec government (Note 9)	<u>265 415</u>	<u>125 450</u>
NET INCOME BEFORE THE FOLLOWING ITEMS	67 823	39 905
Financial contributions (Note 17)	(56 137)	(79 634)
Financial contributions assumed by the Québec government (Note 17)	45 382	77 271
Operating and administrative expenses (Note 18)	(40 589)	(41 523)
Administration fees – Québec government	26 811	27 585
Other expenses (Note 19)	<u>(1 972)</u>	<u>(960)</u>
NET INCOME	41 318	22 644
SURPLUS AT THE BEGINNING	<u>149 014</u>	<u>126 370</u>
SURPLUS AT THE END	<u>190 332</u>	<u>149 014</u>

The notes are an integral part of the financial statements.

INVESTISSEMENT QUÉBEC**CONSOLIDATED BALANCE SHEET**

as at March 31,
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash	2 469	
Temporary investments (Note 3)	28 438	73 625
Investments (Note 4)	1 014 928	438 024
Loans, less accumulated provision for losses (Notes 5 and 9)	801 978	825 344
Shares, less accumulated provision for losses (Notes 6 and 9)	342 722	65 873
Units, less accumulated provision for losses (Notes 7 and 9)	21 276	21 191
Accumulated provision for losses recoverable from the Québec government (Note 9)	562 751	345 328
Fixed assets (Note 10)	3 121	4 470
Other assets (Note 11)	<u>71 733</u>	<u>46 812</u>
TOTAL ASSETS	<u>2 849 416</u>	<u>1 820 667</u>
LIABILITIES AND EQUITY		
LIABILITIES		
Bank overdraft		899
Short-term debt (Note 12)	370 900	399 600
Long-term debt (Note 13)	2 003 146	1 004 351
Due and accrued interest on loans from the Fonds de financement du Gouvernement du Québec	12 267	5 369
Accumulated provision for losses on guarantees (Notes 8 and 9)	219 657	205 044
Other liabilities (Note 14)	<u>20 170</u>	<u>23 446</u>
	<u>2 626 140</u>	<u>1 638 709</u>
EQUITY		
Initial equity	32 944	32 944
Surplus	<u>190 332</u>	<u>149 014</u>
	<u>223 276</u>	<u>181 958</u>
TOTAL LIABILITIES AND EQUITY	<u>2 849 416</u>	<u>1 820 667</u>
GUARANTEES, LESS ACCUMULATED PROVISION FOR LOSSES (Notes 8 and 9)	<u>1 260 404</u>	<u>883 754</u>

COMMITMENTS (Note 25)

CONTINGENCIES (Note 28)

SUBSEQUENT EVENT (Note 29)

The notes are an integral part of the financial statements.

For the Board of Directors,
Jean Houde, Chairman of the Board
Léopold Beaulieu, Director

INVESTISSEMENT QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS for the fiscal year ended March 31, (in thousands of dollars)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	41 318	22 644
Adjustments for:		
Amortization of issuance expenses on long-term debt	460	199
Amortization of discounts and premiums on long-term debt	(1 109)	(994)
Amortization of discounts and premiums on investments	(30 373)	(15 112)
Amortization of deferred fees to financial intermediaries	9 876	4 275
Gain on disposal of shares	(508)	(222)
Gain on disposal of investments	(504)	
Transfer of deferred income	(192)	(192)
Provision for losses	273 023	141 277
Provision for losses recoverable from the Québec government	(265 415)	(125 450)
Depreciation of fixed assets	1 921	2 218
Share of income – Affiliated company, Canadair Québec Capital S.E.N.C.	20	38
	28 517	28 681
Changes in non-cash items related to operating activities (Note 20)	(12 865)	(27 217)
	15 652	1 464
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Net decrease (increase) of temporary investments with a maturity of over three months following the acquisition date	69 083	(69 083)
Acquisition of investments	(576 571)	(267 941)
Disposal of investments	30 524	
Net increase of loans	(146 283)	(195 439)
Net decrease (increase) of shares	(300 076)	16 080
Net increase of units	(236)	(82)
Acquisition of fixed assets	(572)	(910)
Deferred fees to financial intermediaries	(31 362)	(24 642)
	(955 493)	(542 017)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) of short-term debt	(28 700)	44 500
Long-term debt	1 140 820	674 089
Repayment of long-term debt	(140 916)	(205 982)
Deferred issuance expenses on long-term debt	(4 099)	(1 716)
	967 105	510 891
NET INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS	27 264	(29 662)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3 643	33 305
CASH AND CASH EQUIVALENTS AT END OF YEAR	30 907	3 643

INVESTISSEMENT QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)
for the fiscal year ended March 31,
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
CASH AND CASH EQUIVALENTS		
Cash	2 469	
Temporary investments with a maturity not exceeding three months	28 438	4 542
Bank overdraft		<u>(899)</u>
	<u>30 907</u>	<u>3 643</u>
 ADDITIONAL INFORMATION		
Interest paid	<u>30 156</u>	<u>30 740</u>

The notes are an integral part of the financial statements.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at March 31, 2004

(in thousands of dollars)

1. INCORPORATING LEGISLATION AND NATURE OF ACTIVITIES

Investissement Québec is a public law legal entity incorporated and governed under the Act respecting Investissement Québec and La Financière du Québec (R.S.Q., c. I-16.1), and, as such, is not subject to income taxes.

Investissement Québec's mission is to promote investment growth in Québec, thereby contributing to the economic development of Québec and job creation. It centralizes and consolidates Government action in research, promotion and support for investment. It strives not only to stimulate domestic investment, but also to attract outside investors by promoting Québec as an excellent place for investment. Investissement Québec participates in the growth of businesses by facilitating research and development as well as exports. By lending its support to companies already established here, it works to retain current investment in Québec. It can also offer companies and government departments, agencies and corporations a variety of technical services, particularly in the fields of financial analysis, credit arrangement and portfolio management. Investissement Québec administers the financial assistance programs developed by the government with regard to investment. The Corporation also administers the Act respecting Québec Business Investment Companies (R.S.Q., c. S-29.1), and fulfils any mandate assigned to it by the Government under section 28 of its incorporating statute.

The purpose of La Financière du Québec, a wholly owned subsidiary of Investissement Québec, is to use its financing operations to support Québec companies or companies that are setting up operations in Québec, mainly by granting them loans or guaranteeing the financial commitments they make to financial institutions. It also administers the financial assistance programs stemming from the Act respecting assistance for the development of cooperatives and non-profit legal persons (R.S.Q., c. A-12.1).

Section 46 of the Act respecting Investissement Québec and La Financière du Québec states that the parent company shall establish a business plan, which includes the activities of its subsidiaries, according to the form, content and frequency determined by the Québec government. This plan was approved on November 6, 2002 (decree number 1296-2002) and ends on March 31, 2005. The plan provides that the Québec government contribute to the Corporation's financing by reimbursing most financial contributions and losses on certain financing operations, according to the terms and conditions of the programs or decrees under which they were set up, by paying it a contribution as interest on certain financing operations for which it refunds losses and by paying it fees.

2. MAIN ACCOUNTING POLICIES

The consolidated financial statements of the Corporation were prepared in accordance with Canadian generally accepted accounting principles. As such, management is required to make estimates and assumptions that influence the amounts and other information disclosed in the financial statements.

The consolidated financial statements comprise the financial statements of Investissement Québec and those of its wholly owned subsidiaries: La Financière du Québec, IQ Immigrants Investisseurs inc., 9037-6179 Québec inc., 9071-2076 Québec inc. and 9109-3294 Québec inc.

Cash and Cash Equivalents

The Corporation presents, under cash and cash equivalents, cash, temporary investments maturing no later than three months following their acquisition date, as well as bank overdraft.

Investments

Notes receivable from the Québec government are accounted for at cost and discounts on acquisition of investments are charged to the statement of income according to the real-interest method until maturity.

Investment in an affiliated company is accounted for under the equity method.

Other investments are accounted for at cost and, if necessary, discounts and premiums on acquisition of investments are charged to the statement of income according to the straight-line method until maturity.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

2. MAIN ACCOUNTING POLICIES (cont'd)**Loans, Shares and Units**

Loans, including accrued interest receivable, shares and units are recorded at cost. When the credit rating has deteriorated to the extent that there is no reasonable assurance that a loan (principal and interest) will be collected in full, the loan is considered doubtful. The reduction in the accounting value then recognized and any subsequent changes are applied to the provision for losses.

When a loan for which losses are not refunded by the Québec government becomes doubtful and the borrower owes more than three months' interest, the interest ceases to be recognized. The interest received on such loans is recorded as a recovery up to the amount written off or for which a provision has been entered, and is subsequently recorded as interest income.

Foreclosed assets are considered as doubtful loans and are recorded at their fair value at the time of foreclosure. The increase or decrease in the book value is then recognized. Any subsequent decrease is applied to the provision for losses.

The book value of loans for which losses are not refunded by the Québec government, restructured as low-interest loans, interest-free loans or preferred shares, is recorded at the present value of net cash flows receivable pursuant to the new provisions, at the real interest rate inherent in the loan. The decrease in the book value resulting from the restructuring is charged to the provision for losses. The increase in the present value, attributable to the passage of time, is accounted for as interest income.

Common shares stemming from restructured loans for which losses are not refunded by the Québec government are recorded at their book value immediately after the loans have been restructured. The difference between the accounting value of a loan prior to restructuring and the book value of the resulting shares is applied to the provision for losses. Any subsequent decrease in the book value of the shares is also applied to the provision for losses. Any subsequent increase is recognized only upon the sale of the shares, as a gain on the disposal of shares during the current year.

Guarantees

Guarantees, less the accumulated provision for losses, are an off-balance-sheet financial instrument.

Guarantee claims are recorded once they have been approved by the Corporation. Disbursements are then applied to reduce the guarantee balance and the accumulated provision for losses on guarantees.

When the Corporation considers that there is reasonable assurance that a loan will be repaid, these disbursements are recorded as assets in accordance with the accounting policies applicable to loans, shares and units.

Accumulated Provision for Losses

The accumulated provision for losses on loans, shares and units is shown on the Corporation's balance sheet, offset against the value of its assets. The accumulated provision for losses on loan guarantees is shown as a liability on the balance sheet. According to the Corporation, these provisions represent the most accurate estimate possible of the foreseeable amounts for losses on financing operations that are part of its portfolio.

Except for companies that benefit from business start-up and re-start investment programs and special class shares programs, client companies are classified under five risk categories, determined using solvency and credit criteria; this classification is updated regularly.

One of these categories is insolvent clients, while another comprises companies that are likely to become insolvent in the short term. All doubtful loans are found in one of these two categories. The provision for losses on financing operations included in these two categories corresponds to the balance of each operation, less the estimated realizable value of securities, to which a percentage adjustment is applied based on loan collection experience for the companies in these categories. When a company assigned to either category is winding up, has ceased repaying the Corporation and is unlikely to put its finances in order, the related financing operations are written off.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

2. MAIN ACCOUNTING POLICIES (cont'd)

Accumulated Provision for Losses (cont'd)

The three other risk categories comprise companies whose financial profile corresponds to that of the Corporation's target clientele. A group provision is calculated for each of these categories by applying a provision rate to the balance of the financing operations. The provision rate for each category is based on a statistical analysis of the number of companies whose category is downgraded and the size of the losses noted or deemed probable over the past three years.

Companies for which the Corporation's financing operations show an exceptionally high cumulative balance or present specific characteristics are subject to a specific provision for losses analysis, regardless of their risk category.

A global provision is calculated for business start-up and re-start investment programs. This provision corresponds to the amount of authorized guarantees to which a rate based on past experience is applied, less disbursements in respect of loan guarantees under these programs.

Certain loans may be forgiven according to the conditions set out in the loan agreement. The provision for losses on these loans takes into account the insolvency risks mentioned above and the inherent risk in the loan agreement.

Special class shares are non-participating shares, with no dividends and no redemption date. These shares are subject to a specific provision for losses analysis.

Receivable from the Québec Government

The Québec government contributes to the Corporation's financing by reimbursing most financial contributions and losses on certain financing operations, by paying interest on certain financing operations, and by paying fees to the Corporation. The receivable balance for these contributions appears under the heading "Other Assets".

Fixed Assets

Fixed assets are recorded at cost. They are depreciated as of their start-up date, according to their estimated useful lives, under the straight-line method, at the following rates:

Software and computer equipment	33 1/3%
Information systems development	20%
Office furniture	10%
Leasehold improvements	10%

Issuance Expenses, Long-Term Debt Discounts and Premiums

Issuance expenses, long-term debt discounts and premiums are deferred and amortized over the term of the related loan according to the straight-line method. Deferred issuance expenses on long-term debt are included in other assets. Deferred discounts and premiums are presented as a deduction from or addition to the loans with which they are associated.

Land Held for Decontamination Purposes

Land is valued at cost or the net realizable value, whichever is lower. The cost includes expenses related to decontamination and clean-up work.

Deferred Income

The Québec government's contribution for the acquisition of certain fixed assets is deferred and transferred to the statement of income according to the same method and the same rates used for depreciating fixed assets.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

2. MAIN ACCOUNTING POLICIES (cont'd)**Risk Premiums**

When approving a financing operation, the Corporation generally requires a risk premium from the client company. The stock option premium is recorded when an agreement is reached with the client concerning the exact amount and date of payment of the premium. The share-in-earnings premium is payable and recorded no later than six months after the end of the company's fiscal year. The lump-sum premium is recorded when due according to the contract.

Gains on the disposal of shares acquired following the exercise of an option are shown under the heading "Risk Premiums – Stock Options" in the Corporation's statement of income.

Financial Contributions

Financial contributions are made up of non-refundable financial contributions and conditional-refund financial contributions.

Financial contributions are charged to the statement of income for the fiscal year in which the Corporation approved the payment. The corresponding contribution from the Québec government for the financial contributions it assumes is then deemed to have been earned by the Corporation and is recorded in the same fiscal year.

Subsequent recoveries of conditional-refund financial contributions are charged to the statement of income for the current fiscal year. The applicable Québec government refund is also recorded in the statement of income for the current fiscal year.

Fees Paid to Financial Intermediaries

Through one of its subsidiaries, the Corporation pays fees to financial intermediaries for canvassing immigrant investors, for finding companies to recommend for a non-refundable financial contribution, and for closing immigrant investors' files.

Fees paid for canvassing an immigrant investor and fees paid for finding a company to recommend are accounted for once the company has accepted the financing operation. Fees paid for canvassing an immigrant investor are deferred and charged to the statement of income for the duration of the corresponding investment, namely five years, according to the straight-line depreciation method. Fees for closing an immigrant investor's file are recorded on the date the file is closed.

Financial Derivative Instruments

The Corporation holds financial derivative instruments for the purpose of managing the interest rate risk stemming from positions appearing in the balance sheet. These financial instruments are accounted for at fair value, and the resulting gains or losses are applied to income, as an interest rate adjustment. Unmatured financial instruments are disclosed under "Other Assets" and "Other Liabilities".

Currency Translation

Monetary assets and liabilities and guarantees expressed in foreign currency are translated into Canadian dollars at the rate applicable on the date of the balance sheet. Income and expenses denominated in foreign currency are, for their part, translated into Canadian dollars at the prevailing exchange rate on the transaction date.

Pension Plans

The Corporation contributes to government multi-employer defined-benefit pension plans. However, these contributions are accounted for according to the accounting policies concerning defined contribution plans, since the Corporation's obligations toward these government plans are limited to its contributions as an employer.

The Corporation also instituted an optional supplementary pension plan in order to pay retirement benefits to certain members of senior management, in addition to those paid under the basic pension plan. The cost of the retirement benefits received by these employees is established through actuarial calculations based on the defined-benefit method according to years of service, using management's most probable assumptions regarding the expected return on plan investments, the increase in salaries and the retirement age of employees.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

3. TEMPORARY INVESTMENTS

	2004	2003
Banker's acceptances with a maturity not exceeding three months following the acquisition date, from 2.19% to 2.50%, maturing between April 5 and April 15, 2004	4 592	4 542
Canada Treasury Bills, 2.00%, maturing June 17, 2004	398	
Mutual funds – Money market securities	23 448	
Banker's acceptances with a maturity exceeding three months following the acquisition date		69 083
	<u>28 438</u>	<u>73 625</u>

4. INVESTMENTS

	2004	2003
Shares and other equity	23 682	
Bonds and other debt instruments, from 3.15% to 12.25%, maturing between May 9, 2005 and July 22, 2013, nominal value of \$65.8 million	69 636	
Notes receivable from the Québec government, from 3.56% to 6.01%, maturing between January 24, 2006 and March 31, 2009, nominal value of \$1.1 billion	921 587	437 981
Affiliated company, Canadair Québec Capital S.E.N.C., valued under the equity accounting method	23	43
	<u>1 014 928</u>	<u>438 024</u>

The amount of investments denominated in US dollars totalled 5.7 million in Canadian dollars as at March 31, 2004.

The maturities of the investments, at nominal value, are as follows:

2005	
2006	18 665
2007	211 538
2008	349 333
2009	575 292
2010 and beyond	2 939
No maturity	<u>23 705</u>
	<u>1 181 472</u>

5. LOANS, LESS ACCUMULATED PROVISION FOR LOSSES

	2004		2003
	Losses Not Refunded by the Québec Government	Losses Refunded by the Québec Government	
		Total	Total
Loans			
Interest-bearing			
Fixed rate ⁽¹⁾	6 442	101 470	107 912
Variable rate ⁽²⁾	38 288	267 678	305 966
Amounts carried forward	<u>44 730</u>	<u>369 148</u>	<u>413 878</u>
			<u>436 182</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

5. LOANS, LESS ACCUMULATED PROVISION FOR LOSSES (cont'd)

	2004		2003
	Losses Not Refunded by the Québec Government	Losses Refunded by the Québec Government	Total
Amounts brought forward	44 730	369 148	413 878
Interest-free	149	433 589	433 738
Restructured	1 640		1 640
Doubtful	34 073	293 883	327 956
	80 592	1 096 620	1 177 212

Accumulated provision for losses

Interest-bearing loans	(6 083)	(40 605)	(46 688)	(63 839)
Interest-free loans	(19)	(29 737)	(29 756)	(31 038)
Restructured loans	(539)		(539)	(3 810)
Doubtful loans	(23 775)	(274 476)	(298 251)	(106 898)
	(30 416)	(344 818)	(375 234)	(205 585)
	50 176	751 802	801 978	825 344

Anticipated cash receipts from loans, according to contractual provisions, are detailed as follows:

Less than one year	19 461	112 606	132 067	107 181
From 1 to 2 years	12 813	86 766	99 579	97 475
From 2 to 3 years	12 213	135 432	147 645	97 316
From 3 to 4 years	10 403	105 343	115 746	141 943
From 4 to 5 years	4 926	94 483	99 409	83 605
From 5 to 10 years	20 342	399 287	419 629	347 990
From 10 to 20 years	434	162 703	163 137	155 419
	80 592	1 096 620	1 177 212	1 030 929

(1) Fixed interest rates ranged between 3.00% and 12.00% as at March 31, 2004 (between 3.00% and 12.00% as at March 31, 2003).

(2) The Corporation's variable interest rate was 5.50% as at March 31, 2004 (6.25% as at March 31, 2003).

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

6. SHARES, LESS ACCUMULATED PROVISION FOR LOSSES

	2004			2003
	Losses Not Refunded by the Québec Government	Losses Refunded by the Québec Government	Total	Total
Shares				
Common	1 222	34 894	36 116	13 148
Preferred	1 475	346 813	348 288	69 054
Of a special class		7 763	7 763	8 103
Common shares from restructured loans	725		725	1 231
Preferred shares from restructured loans	398		398	1 170
	<u>3 820</u>	<u>389 470</u>	<u>393 290</u>	<u>92 706</u>
Accumulated provision for losses				
Common shares	(586)	(13 699)	(14 285)	(10 022)
Preferred shares	(777)	(26 863)	(27 640)	(7 041)
Special class of shares		(7 763)	(7 763)	(8 103)
Common shares from restructured loans	(546)		(546)	(661)
Preferred shares from restructured loans	(334)		(334)	(1 006)
	<u>(2 243)</u>	<u>(48 325)</u>	<u>(50 568)</u>	<u>(26 833)</u>
	<u>1 577</u>	<u>341 145</u>	<u>342 722</u>	<u>65 873</u>
The share redemption maturities are detailed as follows:				
Less than one year	58	160	218	80
From 1 to 2 years	15	80	95	115
From 2 to 3 years	413	80	493	163
From 3 to 4 years	15	80	95	163
From 4 to 5 years	68	52	120	500
From 5 to 10 years	240	17 587	17 827	17 153
From 10 to 20 years		45 000	45 000	45 000
More than 20 years		260 000	260 000	
	<u>809</u>	<u>323 039</u>	<u>323 848</u>	<u>63 174</u>
No maturity	<u>3 011</u>	<u>66 431</u>	<u>69 442</u>	<u>29 532</u>
	<u>3 820</u>	<u>389 470</u>	<u>393 290</u>	<u>92 706</u>

The Corporation holds shares issued by public companies. The net book value of these shares as at March 31, 2004 was \$9.1 million (\$1.9 million as at March 31, 2003). According to stock market quotations as at March 31, 2004, these shares had a value of \$14.7 million (\$4.9 million as at March 31, 2003).

The Corporation has a put option on the common shares that it holds in a company. The put can be exercised in part (76.8%) as of January 1, 2006 and in whole as of January 1, 2009. The minimum gain related to this put is \$8.2 million.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

7. UNITS, LESS ACCUMULATED PROVISION FOR LOSSES

	2004		2003
	Losses Not Refunded by the Québec Government	Losses Refunded by the Québec Government	Total
Units			Total
Preferred of cooperatives	190	2 770	2 960
Of a limited partnership		18 949	18 949
	190	21 719	21 909
Accumulated provision for losses			
Preferred units of cooperatives	(128)	(505)	(633)
Units of a limited partnership			
	(128)	(505)	(633)
	62	21 214	21 276
The unit redemption maturities are detailed as follows:			
Less than one year		6 459	6 459
From 1 to 2 years	4	6 361	6 365
From 2 to 3 years	4	6 381	6 385
From 3 to 4 years	4	76	80
From 4 to 5 years	4	73	77
From 5 to 10 years	4	594	598
	20	19 944	19 964
No maturity	170	1 775	1 945
	190	21 719	21 909

8. GUARANTEES, LESS ACCUMULATED PROVISION FOR LOSSES

	2004		2003
	Losses Not Refunded by the Québec Government	Losses Refunded by the Québec Government	Total
Guarantees			Total
Loans	216 280	374 039	590 319
Financial commitment	44 717	845 025	889 742
	260 997	1 219 064	1 480 061
Accumulated provision for losses			
Loan guarantees	(39 257)	(104 887)	(144 144)
Financial commitment guarantees	(11 297)	(64 216)	(75 513)
	(50 554)	(169 103)	(219 657)
	210 443	1 049 961	1 260 404

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

8. GUARANTEES, LESS ACCUMULATED PROVISION FOR LOSSES (cont'd)

	2004			2003
	Losses Not Refunded by the Québec Government	Losses Refunded by the Québec Government	Total	Total
The guarantee maturities are detailed as follows:				
Less than one year	51 221	99 051	150 272	90 924
From 1 to 2 years	21 249	16 354	37 603	56 777
From 2 to 3 years	11 873	64 852	76 725	16 302
From 3 to 4 years	13 751	15 539	29 290	97 452
From 4 to 5 years	30 002	24 573	54 575	39 535
From 5 to 10 years	126 977	147 309	274 286	308 511
From 10 to 20 years	5 924	851 386	857 310	479 297
	<u>260 997</u>	<u>1 219 064</u>	<u>1 480 061</u>	<u>1 088 798</u>

The amount of guarantees denominated in US dollars totalled \$835.6 million in Canadian dollars as at March 31, 2004 (\$443.6 million as at March 31, 2003) and the amount of guarantees denominated in other currencies stood at \$41.8 million in Canadian dollars as at March 31, 2004 (\$43.2 million as at March 31, 2003).

9. ACCUMULATED PROVISION FOR LOSSES

	2004			2003
	Losses Not Refunded by the Québec Government	Losses Refunded by the Québec Government ⁽¹⁾	Total	Total
Balance at beginning of year	92 616	345 328	437 944	352 675
Provision for losses ⁽²⁾	7 608	265 415	273 023	141 277
Recoveries	591	29	620	825
Write-offs ⁽³⁾	(6 278)	(41 431)	(47 709)	(39 097)
Guarantee disbursements that did not create an asset	<u>(11 196)</u>	<u>(6 590)</u>	<u>(17 786)</u>	<u>(17 736)</u>
Balance at end of year	<u>83 341</u>	<u>562 751</u>	<u>646 092</u>	<u>437 944</u>

The accumulated provision for losses breaks down as follows:

Loans	30 416	344 818	375 234	205 585
Shares	2 243	48 325	50 568	26 833
Units	128	505	633	482
Guarantees	<u>50 554</u>	<u>169 103</u>	<u>219 657</u>	<u>205 044</u>
	<u>83 341</u>	<u>562 751</u>	<u>646 092</u>	<u>437 944</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2004

(in thousands of dollars)

9. ACCUMULATED PROVISION FOR LOSSES (cont'd)

The Corporation can demand that companies provide securities and bonds. The nature of the securities generally concerns the universality of the client company's assets, notably land, buildings, equipment, machinery and furniture. However, the provision for losses takes into account only the value of securities and bonds related to companies that are insolvent or that would likely become insolvent in the short term. The value of securities and bonds related to loans, shares and units stood at \$108.2 million as at March 31, 2004 (\$175.6 million as at March 31, 2003) and that of securities and bonds related to guarantees concerning companies that are insolvent or that would likely become insolvent in the short term stood at \$24.2 million as at March 31, 2004 (\$18.8 million as at March 31, 2003).

- (1) Corresponds to the "Accumulated provision for losses recoverable from the Québec government" shown as an asset on the balance sheet.
- (2) Includes an amount of \$2.5 million for exchange gains as at March 31, 2004 (\$1.7 million as at March 31, 2003).
- (3) Write-offs in the form of restructured loans as well as write-offs for shares from restructured loans amount to \$1.3 million for the fiscal year ended March 31, 2004 (\$1 million as at March 31, 2003).

10. FIXED ASSETS

	2004			2003
	Cost	Accumulated Depreciation	Net Value	Net Value
Software and computer equipment	2 631	(2 094)	537	685
Information systems development	5 858	(5 324)	534	1 527
Office furniture	538	(148)	390	372
Leasehold improvements ⁽¹⁾	2 428	(768)	1 660	1 886
	<u>11 455</u>	<u>(8 334)</u>	<u>3 121</u>	<u>4 470</u>

- (1) Leasehold improvements concern fixed assets belonging to or rented by the Société immobilière du Québec.

11. OTHER ASSETS

	2004	2003
Receivable from the Québec government	12 437	13 406
Deferred fees to financial intermediaries	50 106	28 620
Deferred issuance expenses on long-term debt ⁽¹⁾	5 207	1 568
Interest and dividends receivable on investments	1 117	
Assets related to financial derivative instruments	15	93
Land held for decontamination purposes (Note 28) ⁽²⁾	297	290
Other receivables ⁽³⁾	2 554	2 835
	<u>71 733</u>	<u>46 812</u>

- (1) From transactions concluded with the Fonds de financement du gouvernement du Québec.
- (2) The tenant of one of the lots has the option to buy the land for one dollar, plus the excess of the cost of clean-up work over the total payments made by the latter to the subsidiary 9071-2076 Québec inc., according to the terms of its rental agreement. The tenant of the other lot has the option to buy the land for one dollar.
- (3) No receivable from related entities as at March 31, 2004 (\$37 000 as at March 31, 2003).

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2004

(in thousands of dollars)

12. SHORT-TERM DEBT

	2004	2003
Banker's acceptances – financial institutions, 2.35%, maturing on April 7, 2004	44 000	72 000
Notes – financial institutions, from 2.27% to 2.35%, maturing between April 1 and 30, 2004	193 900	184 100
Notes – Fonds de financement du gouvernement du Québec, 2.26%, maturing on April 21, 2004	133 000	143 500
	<u>370 900</u>	<u>399 600</u>

Under decrees number 310-2002 and 311-2002, dated March 20, 2002, the Corporation and its subsidiary La Financière du Québec are authorized to contract active short-term loans totalling up to \$600 million, until September 30, 2006, with financial institutions or the Fonds de financement du gouvernement du Québec. The total active short-term loans for the two corporations cannot exceed these limits.

As at March 31, 2004, the Corporation had bank credit lines of \$10 million, renewable in September 2004. The used amounts bear interest at the lender's prime rate.

13. LONG-TERM DEBT

	2004	2003
Notes – Fonds de financement du gouvernement du Québec:		
- 7.50%, matured on December 1, 2003, nominal value of \$34.1 million (effective rate of 7.81%)		34 096
- at the banker's acceptance rate (3 months) plus 0.03%, matured on December 1, 2003		100 000
- at the banker's acceptance rate (1 month) plus 0.19%, maturing on October 1, 2007	75 000	75 000
- at the banker's acceptance rate (1 month) plus 0.28%, maturing on July 17, 2009	175 000	175 000
- 4.33%, maturing on July 9, 2010	28 200	
- 8.00%, maturing on December 1, 2010, nominal value of \$75.6 million (effective rate of 6.07%)	83 126	84 255
- at the banker's acceptance rate (3 months) plus 0.15%, maturing on October 1, 2013	100 000	
- at the banker's acceptance rate (1 month) plus 0.08%, maturing on October 1, 2013	60 000	
- at the banker's acceptance rate (1 month) plus 0.05%, maturing on October 1, 2013 ⁽¹⁾	162 500	
- at the banker's acceptance rate (1 month) plus 0.12%, maturing on October 1, 2013	134 120	
- at the banker's acceptance rate (1 month) plus 0.09%, maturing on October 1, 2013 ⁽¹⁾	52 500	
- at the banker's acceptance rate (1 month) plus 0.21%, maturing on June 1, 2032	47 500	
Notes – immigrant investors, interest-free, maturing between January 24, 2006 and March 31, 2009 ⁽²⁾	1 085 200	536 000
	<u>2 003 146</u>	<u>1 004 351</u>

⁽¹⁾ The Corporation has the option of renewing this loan, for a maximum period of 20 years from the maturity of the initial loan

⁽²⁾ Payment of principal a guaranteed by Québec.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

13. LONG-TERM DEBT (cont'd)

Nominal repayments of the principal on long-term debt are as follows:

2005	
2006	1 600
2007	191 200
2008	411 000
2009	556 400
2010 and beyond	835 420
	<u>1 995 620</u>

Under decrees number 482-2002 and 483-2002, dated April 24, 2002 and amended by decree number 342-2003, dated March 5, 2003, the Corporation and its subsidiary La Financière du Québec are authorized to contract long-term loans totalling up to \$1.5 billion, until September 30, 2006, with the Fonds de financement du gouvernement du Québec. The total active long-term loans for the two corporations cannot exceed this limit.

14. OTHER LIABILITIES

	<u>2004</u>	<u>2003</u>
Deferred income ⁽¹⁾	1 982	2 566
Non-refundable financial contributions and guarantees payable	4 607	7 159
Sick leave and vacations payable (Note 27)	9 863	9 060
Liabilities related to financial derivative instruments		132
Fees payable to financial intermediaries	702	938
Other payables ⁽²⁾	<u>3 016</u>	<u>3 591</u>
	<u>20 170</u>	<u>23 446</u>

⁽¹⁾ Includes the deferred contribution of the Ministère du Développement économique et régional et de la Recherche to the "Investors' and Promoters' Data Bank" for an amount of \$50 000 as at March 31, 2004 (\$50 000 and \$0.2 million for the Québec government's deferred contribution for the acquisition of fixed assets.

⁽²⁾ Include \$0.2 million due to related entities as at March 31, 2004 (\$1.5 million as at March 31, 2003).

15. INTEREST INCOME AND INTEREST CONTRIBUTION FROM QUÉBEC GOVERNMENT

	<u>2004</u>	<u>2003</u>
Interest on loans	36 940	25 198
Interest on investments	32 085	15 112
Interest on cash and temporary investments	1 986	1 669
Interest contribution from Québec government on certain low-yield or zero-yield financing operations ⁽¹⁾	<u>27 688</u>	<u>21 924</u>
	<u>98 699</u>	<u>63 903</u>

⁽¹⁾ This contribution concerns financing operations for which losses are refunded by the Québec government. It corresponds to the surplus of the Corporation's average borrowing cost over the yield of these operations.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2004

(in thousands of dollars)

16. INTEREST CHARGES

	2004	2003
Interest on long-term debt ⁽¹⁾	26 037	16 276
Interest on short-term debt and bank charges ⁽²⁾	11 052	10 643
Net losses (net gains) on financial derivative instruments	511	(5)
Amortization of issuance expenses on long-term debt ⁽¹⁾	460	199
Amortization of long-term debt discounts and premiums ⁽¹⁾	(1 109)	(994)
	<u>36 951</u>	<u>26 119</u>

⁽¹⁾ From transactions concluded with the Fonds de financement du gouvernement du Québec.

⁽²⁾ Interest charges on short-term loans taken out with the Fonds de financement du gouvernement du Québec totalled \$3.8 million for the fiscal year ended March 31, 2004 (\$4.2 million for the fiscal year ended March 31, 2003).

17. FINANCIAL CONTRIBUTIONS

	2004		2003
	Not Assumed by the Québec Government	Assumed by the Québec Government ⁽¹⁾	Total
Non-refundable financial contributions	10 755	41 463	52 218
Conditional-refund financial contributions		3 919	3 919
	<u>10 755</u>	<u>45 382</u>	<u>56 137</u>
			<u>79 634</u>

⁽¹⁾ Corresponds to "Financial contributions assumed by the Québec government" shown in the statement of income and surplus.

18. OPERATING AND ADMINISTRATIVE EXPENSES ⁽¹⁾

	2004	2003
Salaries and employee benefits	28 754	27 789
Rent	2 419	2 350
Travel, entertainment, advertising and promotion	3 375	4 393
Fees	762	988
Amortization of fixed assets	1 921	2 218
Others	3 358	3 785
	<u>40 589</u>	<u>41 523</u>

⁽¹⁾ Include \$3.6 million to related entities for the fiscal year ended March 31, 2004 (\$4 million for the fiscal year ended March 31, 2003).

19. OTHER EXPENSES

	2004	2003
Share of income – Affiliated company, Canadair Québec Capital S.E.N.C.	20	38
Others	1 952	922
	<u>1 972</u>	<u>960</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

20. CHANGES IN NON-CASH ITEMS RELATED TO OPERATING ACTIVITIES

	2004	2003
Other assets	204	(4 180)
Due and accrued interest on debt	6 898	(3 838)
Other liabilities	(3 084)	2 783
Accumulated provision for losses	(64 875)	(56 008)
Accumulated provision for losses recoverable from the Québec government	47 992	34 026
	<u>(12 865)</u>	<u>(27 217)</u>

21. FINANCIAL DERIVATIVE INSTRUMENTS

The Corporation conducts transactions in the form of futures contracts. These contracts are contractual agreements for the purchase or sale of financial instruments at specific prices and at future dates. Futures contracts are traded based on standardized amounts on organized exchanges and are subject to cash margins calculated on a daily basis.

The following table shows the fair value of the Corporation's portfolio of financial derivative instruments as at March 31, 2004, as represented by gains and losses not realized.

	2004		2003
	Positive	Negative	Net amount
3-month futures contracts on banker's acceptances		6	(6)
10-year futures contracts on Canadian bonds		9	77
		<u>15</u>	<u>(15)</u>
			<u>74</u>

22. FAIR MARKET VALUE OF DERIVATIVE INSTRUMENTS

Fair market value represents management's estimate of the market value at which a financial instrument may be traded between unrelated parties acting freely under conditions of full competition in the normal course of business; the best indication of fair value is the market price.

When the market price is available, the Corporation uses it to determine the fair market value of its financial instruments. When there are no markets or when the markets are not considered sufficiently liquid, the Corporation measures the fair value using valuation methods and assumptions. In such case, the estimated fair value is calculated based on the market situation at a given point in time, and hence does not necessarily reflect the future market value of the instrument.

The table below shows the fair value of balance-sheet and off-balance-sheet financial instruments, including derivatives, established using the valuation methods and assumptions described below. The fair value of assets and liabilities that are not considered financial instruments, such as fixed assets, is not presented in the table.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

22. FAIR MARKET VALUE OF DERIVATIVE INSTRUMENTS (cont'd)

	2004			2003		
	Book value	Fair Value	Difference	Book Value	Fair Value	Difference
Balance-sheet financial instruments						
Assets						
Cash, bank overdraft and temporary investments	30 907	30 907		72 726	72 679	(47)
Investments	1 014 905	1 058 916	44 011	437 981	444 591	6 610
Loans, less accumulated provision for losses	801 978	672 302	(129 676)	825 344	661 681	(163 663)
Shares and units, less accumulated provision for losses	363 998	90 813	(273 185)	87 064	47 853	(39 211)
Futures contracts	15	15		93	93	
Interest contributions from Québec government		122 013	122 013		80 417	80 417
Other assets	16 405	16 405		16 624	16 624	
	<u>2 228 208</u>	<u>1 991 371</u>	<u>(236 837)</u>	<u>1 439 832</u>	<u>1 323 938</u>	<u>(115 894)</u>
Liabilities						
Loans	2 374 046	2 258 861	115 185	1 403 951	1 320 044	83 907
Futures contracts				132	132	
Other liabilities	20 592	20 515	77	17 057	16 936	121
	<u>2 394 638</u>	<u>2 279 376</u>	<u>115 262</u>	<u>1 421 140</u>	<u>1 337 112</u>	<u>84 028</u>
Off-balance-sheet financial instruments						
Guarantees		(397 554)	(397 554)		(259 539)	(259 539)
Stock options ⁽¹⁾		3 952	3 952			
		<u>(393 602)</u>	<u>(393 602)</u>		<u>(259 539)</u>	<u>(259 539)</u>
			<u>(515 177)</u>			<u>(291 405)</u>

⁽¹⁾ The fair value of stock options as at March 31, 2003 could not be established with reasonable effort.

The fair value of balance-sheet and off-balance-sheet financial instruments was estimated using the following methods and assumptions:

Cash, bank overdraft, temporary investments, short-term loans and other assets and liabilities

Given the short-term maturities of cash, bank overdraft, temporary investments with maturities not exceeding three months following the date of acquisition, short-term loans and other assets and liabilities, their fair value is considered to be equivalent to the book value.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

22. FAIR MARKET VALUE OF DERIVATIVE INSTRUMENTS (cont'd)**Cash, bank overdraft, temporary investments, short-term loans and other assets and liabilities (cont'd)**

The fair value of temporary investments with maturities exceeding three months following the date of acquisition is estimated by discounting cash flows, using interest rates prevailing on the market for investments with similar conditions and credit risks.

The fair value of due and accrued interest maturing in more than three months is estimated by discounting cash flows, using interest rates prevailing on the market for investments with similar conditions and credit risks.

Investments

The fair value of investments in securities is determined from the market price. The fair value of notes receivable from the Government of Québec is estimated by discounting cash flows, using interest rates prevailing on the market for investments with similar conditions and credit risks.

Loans

The fair value of the loans portfolio is based on the evaluation of the two following risks: interest rate risk and credit risk. The fair value of fixed rate and repayment loans is estimated by discounting cash flows, using risk-free interest rates prevailing on the market and taking into account the history of the Corporation's losses for loans with similar conditions and credit risks. The fair value of variable-rate loans or loans with rates that are revised frequently is deemed to be equal to the net book value. The fair value of variable-repayment loans cannot be estimated with reasonable effort, considering the uncertainty regarding the amounts that will be repaid. Consequently, the fair value is considered equal to the net book value. For doubtful loans, the fair value is deemed to be equal to the net book value, in accordance with the valuation methods described in Note 2 under "Accumulated provision for losses".

Shares and units

The fair value of shares and units is determined from market prices when they are available. The fair value of preferred shares with an established redemption date and that of fixed rate and repayment preferred units of cooperatives is estimated by discounting cash flows, using risk-free interest rates prevailing on the market and taking into account the history of the Corporation's losses for shares and units with similar conditions and credit risks. The Corporation feels that, in the case of the other equity securities that are not traded on organized markets, the fair value cannot be estimated with reasonable effort and it is deemed to be equivalent to the net book value.

Futures contracts

The fair value of futures contracts is determined from market prices.

Interest contributions from the Government of Québec

The fair value of interest contributions from the Government of Québec is based on the evaluation of the two following risks: interest rate risk and credit risk. The fair value of interest contributions from the Government of Québec is estimated by discounting cash flows, using the interest rates of the Government of Québec.

Loans

The fair value of fixed-rate long-term loans is determined based on market prices for debt instruments with similar conditions and credit risks. The fair value of variable-rate long-term loans is deemed to be equal to the net book value.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

22. FAIR MARKET VALUE OF DERIVATIVE INSTRUMENTS (cont'd)

Guarantees

The fair value of the guarantees portfolio is based on the evaluation of the two following risks: interest rate risk and credit risk. The fair value of guarantees is estimated by discounting guarantee disbursements and fees for anticipated guarantees, using risk-free interest rates prevailing on the market and taking into account the history of the Corporation's losses for guarantees with similar conditions and credit risks. For guarantees pertaining to insolvent companies or companies that are likely to become insolvent in the short term, the fair value corresponds to the accumulated provision for losses, in accordance with the valuation methods described in Note 2 under "Accumulated provision for losses".

Stock options

The fair value of stock options is determined from market prices when they are available. In the case of options that are not traded on organized markets, the fair value is based on the book value of the company concerned.

23. INTEREST RATE SENSITIVITY

The asset and liability maturities presented below show the situation as at March 31, 2004 of the sensitivity of the Corporation's balance sheet to interest rate fluctuations.

	Variable Rate	Less Than 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Not Sensitive to Interest Rates	Total
Assets							
Cash and temporary investments		4 990				25 917	30 907
Effective Yield		2.2 %					
Investments				988 103	3 120	23 705	1 014 928
Effective Yield				5.0 %	5.2 %		
Loan, shares and units	300 273	6 170	970	4 740	102 215	751 608	1 165 976
Effective Yield		6.6 %	7.1 %	5.0 %	7.8 %		
Other assets						637 605	637 605
	<u>300 273</u>	<u>11 160</u>	<u>970</u>	<u>992 843</u>	<u>105 335</u>	<u>1 438 835</u>	<u>2 849 416</u>
Liabilities and equity							
Debt		1 077 520	100 000		111 326	1 085 200	2 374 046
Effective Yield		2.4 %	2.8 %		5.6 %		
Other liabilities						252 094	252 094
Equity						223 276	223 276
		<u>1 077 520</u>	<u>100 000</u>		<u>111 326</u>	<u>1 560 570</u>	<u>2 849 416</u>
On-balance sheet gap	<u>300 273</u>	<u>(1 066 360)</u>	<u>(99 030)</u>	<u>992 843</u>	<u>(5 991)</u>	<u>(121 735)</u>	
2003 Gap	<u>285 829</u>	<u>(709 571)</u>	<u>2 281</u>	<u>406 102</u>	<u>95 313</u>	<u>(79 954)</u>	

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

24. CONCENTRATION OF CREDIT RISK

The following table presents a summary of the sectoral distribution of the credit risk.

	2004			2003
	Loans, Shares and Units	Guarantees	Total	Total
Primary sector companies	46 350	60 282	106 632	110 115
Secondary sector companies				
Transportation equipment	204 306	934 844	1 139 150	699 667
Paper	419 605	11 694	431 299	301 599
Primary processing metals and metal products	377 995	27 442	405 437	104 931
Others	320 877	192 207	513 084	498 420
	1 322 783	1 166 187	2 488 970	1 604 617
Tertiary sector companies	223 278	253 592	476 870	519 374
	1 592 411	1 480 061	3 072 472	2 234 106

25. COMMITMENTS

In the regular course of its activities, the Corporation makes various commitments, which represent the unused amounts of financing operations offered in the form of loans, shares, units, guarantees and financial contributions. The total amount of these commitments does not necessarily represent future cash requirements, since many of them will expire or may be cancelled without giving rise to cash disbursements.

In addition, the Corporation has undertaken to pay fees to financial intermediaries for the closing of immigrant investor files.

The amounts of the commitments are detailed as follows:

	2004			2003
	Losses Not Refunded and Contributions Not Assumed by the Québec Government	Losses Refunded and Contributions Assumed by the Québec Government	Total	Total
Loans	18 738	571 985	590 723	710 232
Shares				260 000
Units				1 175
Guarantees	71 684	596 461	668 145	772 763
Financial contributions	88 753	408 082	496 835	343 009
Fees to financial intermediaries	10 975		10 975	5 786
	190 150	1 576 528	1 766 678	2 092 965

The amount of commitments denominated in US dollars totalled \$0.4 million in Canadian dollars as at March 31, 2004 (\$5.4 million as at March 31, 2003).

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2004

(in thousands of dollars)

26. PENSION PLANS

The employees of Investissement Québec subscribe to the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CSSP) and the Pension Plan for Management (PPM). These are inter-company defined-benefit plans that include retirement and death guarantees. Investissement Québec's obligations toward these government plans are limited to its contributions as an employer. Investissement Québec's contributions charged to the statement of income for the fiscal year amount to \$0.9 million (\$0.8 million for the fiscal year ended March 31, 2003).

The employer's responsibilities toward the supplementary pension plans consist in assuming benefits in full when the beneficiary of the plan retires. Thus, no contribution is paid by the employees or the employer. As at March 31, 2004, the employer's obligations stood at \$0.1 million. The significant actuarial assumptions used by the Corporation to evaluate its obligations regarding benefits are as follows: the expected rate of return for the plan is 6.75% and the growth rate for compensation is 4%.

27. SICK LEAVE AND VACATIONS PAYABLE

	2004	2003
Balance at beginning of year	9 060	7 367
Expense for the year	2 891	3 847
Amount paid during the year	<u>(2 088)</u>	<u>(2 154)</u>
Balance at end of year	<u>9 863</u>	<u>9 060</u>

28. CONTINGENCIES

Under decree 1421-98 issued by the Québec government on November 11, 1998, 9071-2076 Québec Inc., a subsidiary of Investissement Québec, acquired a piece of contaminated land in December 1998 for the price of one dollar. Investissement Québec will guarantee the environmental liability of this land until funds become available in the subsidiary to assume such liability. The Corporation estimates that the land decontamination and clean-up cost may reach \$2.2 million. However, under its incorporating legislation, any losses stemming from this contingent liability will be borne by the Québec government.

Under decree 1393-2001 issued by the Québec government on November 21, 2001, 9109-3294 Québec Inc., a subsidiary of Investissement Québec, acquired a piece of contaminated land in December 2001 for the price of one dollar. Investissement Québec will guarantee, in part, the environmental liability of this land. The Corporation estimates that the land decontamination and clean-up cost, which it must assume, may reach \$12.2 million. However, under its incorporating legislation, any losses stemming from this contingent liability will be borne by the Québec government.

During a previous year, La Financière du Québec, a subsidiary of Investissement Québec, recorded a gain on disposal of shares from an option, following the sale of all the shares issued by a company. As part of this transaction, the subsidiary, as the seller, agreed to compensate the managing shareholders for damages or losses which they may incur due to the guarantees that they gave to the buyer. The maximum amount that the subsidiary could be held to pay in this regard is \$0.6 million. This commitment will end no later than January 15, 2007.

Various judicial and extrajudicial proceedings instituted by or against the Corporation are currently under way. In the Corporation's opinion, the outcome of these proceedings will not have a significant impact on its financial position or the results of its operations.

29. SUBSEQUENT EVENT

Under decree 315-2004, dated March 31, 2004, the Corporation acquired, on April 1, 2004, at a price equal to the book value, the assets and liabilities of its subsidiary La Financière du Québec. The acquisition price for the latter, in the amount of \$97 million, was covered with an advance for the same amount. In addition, on April 27, 2004, the subsidiary redeemed 608 766 shares of the share capital held by the Corporation for an amount of \$60.9 million.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2004

(in thousands of dollars)

30. RELATED PARTY TRANSACTIONS

The Corporation is a related party to all departments and special funds as well as to all agencies and corporations that are controlled directly or indirectly by the Québec government or are subject to either joint control or significant common influence by the Québec government. The Corporation's business transactions with these related parties were carried out during the normal course of its activities and under usual business conditions. All these transactions, accounted for according to their exchange value, are shown separately in the financial statements.

31. COMPARATIVE FIGURES

Certain figures from fiscal 2003 have been reclassified to conform to the presentation adopted in 2004.

32. BALANCE SHEETS OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES

	2004					2003	
	Investissement Québec Non-Consolidated	La Financière du Québec	IQ Immigrants Investisseurs Inc.	Other Subsidiaries	Eliminations and Reclassifications ⁽¹⁾	Consolidated Total	Consolidated Total
Assets							
Cash	2 247		393	5	(176)	2 469	
Temporary investments			28 438			28 438	73 625
Investments			1 014 905	23		1 014 928	438 024
Loans, less accumulated provision for losses	661 737	140 241				801 978	825 344
Shares, less Accumulated provision for losses	338 848	3 874				342 722	65 873
Units, less accumulated provision for losses	18 949	2 327				21 276	21 191
Accumulated provision for losses recoverable from the Québec government	453 354	109 397				562 751	345 328
Investments in subsidiaries, valued under the equity accounting method	165 905				(165 905)		
Advances to subsidiaries	13 958				(13 958)		
Fixed assets	3 121					3 121	4 470
Other assets	17 769	3 587	51 223	475	(1 321)	71 733	46 812
Total assets	1 675 888	259 426	1 094 959	503	(181 360)	2 849 416	1 820 667

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

32. BALANCE SHEETS OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES (cont'd)

Liabilities and Equity	2004					2003	
	Investissement Québec Non-Consolidated	La Financière du Québec	IQ Immigrants Investisseurs Inc.	Other Subsidiaries	Eliminations and Reclassifications ⁽¹⁾	Consolidated Total	Consolidated Total
Liabilities							
Outstanding cheques less cash		176			(176)		
Bank overdraft							899
Short-term debt	370 900					370 900	399 600
Long-term debt	917 946		1 085 200			2 003 146	1 004 351
Due and accrued interest on loans	12 267					12 267	5 369
Advances from the parent company		13 556		402	(13 958)		
Accumulated provision for losses on guarantees	135 007	84 650				219 657	205 044
Other liabilities	16 492	3 130	1 689	180	(1 321)	20 170	23 446
	<u>1 452 612</u>	<u>101 512</u>	<u>1 086 889</u>	<u>582</u>	<u>(15 455)</u>	<u>2 626 140</u>	<u>1 638 709</u>
Equity							
Initial equity and share capital	32 944	60 877	1	3	(60 881)	32 944	32 944
Surplus (deficit)	190 332	97 037	8 069	(82)	(105 024)	190 332	149 014
	<u>223 276</u>	<u>157 914</u>	<u>8 070</u>	<u>(79)</u>	<u>(165 905)</u>	<u>223 276</u>	<u>181 958</u>
Total liabilities and equity	<u>1 675 888</u>	<u>259 426</u>	<u>1 094 959</u>	<u>503</u>	<u>(181 360)</u>	<u>2 849 416</u>	<u>1 820 667</u>
Guarantees, less accumulated provision for losses	<u>927 622</u>	<u>332 782</u>				<u>1 260 404</u>	<u>883 754</u>

(1) Eliminations related to balances and business-to-business transactions and reclassifications.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

33. STATEMENT OF INCOME AND SURPLUS OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES

	2004					2003	
	Investissement Québec Non- Consolidated	La Financière du Québec	IQ Immigrants Investisseurs Inc.	Other Subsidiaries	Eliminations and Reclassi- fications ⁽¹⁾	Consolidated Total	Consolidated Total
Interest income and interest contribution from the Québec government	51 631	13 909	34 013		(854)	98 699	63 903
Risk premiums							
Stock options	1 615	2 535				4 150	5 288
Others	464	2 591				3 055	2 412
Guarantee fees	4 189	8 336				12 525	11 360
Commitment fees	3 983	3 683				7 666	7 722
Gain on disposal of shares		508				508	222
Gain on disposal of investments			504			504	
Share of earnings distributed by a limited partnership	417					417	266
Fees – Affiliated company, IQ Immigrants Investisseurs Inc.		725			(725)		
Other income	2 002	91	512			2 605	1 113
	64 301	32 378	35 029		(1 579)	130 129	92 286
Interest charges	(36 951)	(854)			854	(36 951)	(26 119)
Fees to financial intermediaries			(17 747)			(17 747)	(10 435)
Fees – Affiliated company, La Financière du Québec			(834)		834		
Net income before provision for losses and the following items (Amounts carried forward)	27 350	31 524	16 448		109	75 431	55 732

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

33. STATEMENT OF INCOME AND SURPLUS OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES (cont'd)

	2004					2003	
	Investissement Québec Non- Consolidated	La Financière du Québec	IQ Immigrants Investisseurs Inc.	Other Subsidiaries	Eliminations and Reclassi- fications ⁽¹⁾	Consolidated Total	Consolidated Total
Amounts brought forward	27 350	31 524	16 448		109	75 431	55 732
Provision for losses	(232 503)	(40 520)				(273 023)	(141 277)
Provision for losses recoverable from the Québec government	232 503	32 912				265 415	125 450
Net income before the following items	27 350	23 916	16 448		109	67 823	39 905
Financial contributions	(45 287)	(3)	(10 755)	(92)		(56 137)	(79 634)
Financial contributions assumed by the Québec government	45 287	3		92		45 382	77 271
Operating and administrative expenses	(21 679)	(18 570)	(391)		51	(40 589)	(41 523)
Administration fees – Québec government	14 210	12 601				26 811	27 585
Other expenses	(1 636)	(69)	(87)	(20)	(160)	(1 972)	(960)
Net income before share of income from subsidiaries	18 245	17 878	5 215	(20)		41 318	22 644
Share of income from subsidiaries	23 073				(23 073)		
Net income	41 318	17 878	5 215	(20)	(23 073)	41 318	22 644
Surplus (deficit) at the beginning	149 014	79 159	2 854	(62)	(81 951)	149 014	126 370
Surplus (deficit) at the end	190 332	97 037	8 069	(82)	(105 024)	190 332	149 014

(1) Eliminations related to balances and business-to-business transactions and reclassifications.

INVESTISSEMENT QUÉBEC**DECLARATION OF RESPONSIBILITY FOR FINANCIAL INFORMATION**

The preparation and presentation of the consolidated financial statements of Investissement Québec and other information disclosed in this annual report are the responsibility of Management.

The consolidated financial statements have been drawn up in accordance with Canadian generally accepted accounting principles.

The financial information disclosed in the annual report is consistent with that contained in the financial statements.

The Corporation's accounting system as well as its internal controls and procedures are designed to ensure the reliability of financial data and to provide reasonable assurance that the Corporation's assets are adequately protected against any loss or unauthorized use.

The Board of Directors, which is responsible for monitoring the manner in which management fulfills its responsibilities regarding financial information, approved the financial statements. The Board is assisted in carrying out its mandate by the Audit and Human Resources Committee. This committee meets with Management and the auditor, reviews the financial statements, and recommends their approval to the Board. The Audit and Human Resources Committee also receives copies of the audit reports on the optimization of resources and compliance with laws and regulations, particularly the Financial Administrative Act.

Jean Houde
President and Chief Executive Officer

André Côté
Vice-President, Administration

AUDITOR'S REPORT

To the National Assembly

I have audited the consolidated balance sheet of Investissement Québec as at March 31, 2004 and the consolidated statements of income, surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec City, May 31, 2004

IQ IMMIGRANTS INVESTISSEURS INC.
(R.S.Q., c. I-16.1)

BALANCE SHEET
as at March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash on hand	393	
Short-term investments (Note 3)	28 438	73 625
Investments (Note 4)	1 014 905	437 981
Interest and dividends receivable on investments	1 117	
Deferred financial intermediaries' fees	<u>50 106</u>	<u>28 620</u>
TOTAL ASSETS	<u>1 094 959</u>	<u>540 226</u>
LIABILITIES AND EQUITY		
LIABILITIES		
Long-term borrowings (Note 6)	1 085 200	536 000
Fees payable to parent company	304	87
Fees payable to related corporation, La Financière du Québec	204	15
Financial intermediaries' fees payable	702	938
Other accounts payable	<u>479</u>	<u>331</u>
	<u>1 086 889</u>	<u>537 371</u>
EQUITY		
Capital stock (Note 7)	1	1
Retained earnings	<u>8 069</u>	<u>2 854</u>
	<u>8 070</u>	<u>2 855</u>
TOTAL LIABILITIES AND EQUITY	<u>1 094 959</u>	<u>540 226</u>

COMMITMENTS (Note 13)

The notes are an integral part of the financial statements.

For the Board of Directors,
André Côté, Chairman of the Board
Me Gilles Montplaisir, Secretary

IQ IMMIGRANTS INVESTISSEURS INC.

STATEMENT OF INCOME AND RETAINED EARNINGS
for the fiscal year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
Interest income (Note 8)	34 013	16 724
Gains on sale of investments	504	
Dividends	<u>512</u>	
	35 029	<u>16 724</u>
Financial intermediaries' fees	(17 747)	(10 435)
Fees – Related corporation, La Financière du Québec	(834)	(522)
Non-refundable financial contributions	<u>(10 755)</u>	<u>(2 363)</u>
NET INCOME BEFORE THE FOLLOWING ITEMS	5 693	3 404
Administrative fees – Parent company (Note 9)	(391)	(396)
Other expenditure	<u>(87)</u>	<u>(5)</u>
NET INCOME	5 215	3 003
Retained earnings (deficit) at the beginning	<u>2 854</u>	<u>(149)</u>
RETAINED EARNINGS AT THE END	<u><u>8 069</u></u>	<u><u>2 854</u></u>

The notes are an integral part of the financial statements.

IQ IMMIGRANTS INVESTISSEURS INC.

STATEMENT OF CASH FLOWS
for the fiscal year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Net income	5 215	3 003
Adjustment for:		
Amortization of premiums and discounts on investments	(30 373)	(15 112)
Gains on sale of investments	(504)	
Amortization of deferred financial intermediaries fees	9 876	4 275
	<u>(15 786)</u>	<u>(7 834)</u>
Changes in non-cash items related to operating activities (Note 10)	<u>(799)</u>	<u>1 139</u>
	<u>(16 585)</u>	<u>(6 695)</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Net decrease (increase) of short-term investments maturing more than three months after their acquisition date	69 083	(69 083)
Acquisition of investment	(576 571)	(267 941)
Disposition de placements	30 524	
Deferred financial intermediaries' fees	<u>(31 362)</u>	<u>(24 642)</u>
	<u>(508 326)</u>	<u>(361 666)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Long-term borrowings	556 000	338 800
Repayment of long-term borrowings	(6 800)	
Share issue		<u>1</u>
	<u>549 200</u>	<u>338 801</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24 289	(29 560)
Cash and cash equivalents, beginning of year	<u>4 542</u>	<u>34 102</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>28 831</u>	<u>4 542</u>
CASH AND CASH EQUIVALENTS		
Cash on hand	393	
Short-term investments maturing more than three months after their acquisition date (Note 3)	<u>28 438</u>	<u>4 542</u>
	<u>28 831</u>	<u>4 542</u>

The notes are an integral part of the financial statements.

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO FINANCIAL STATEMENTS**

as at March 31, 2004

(in thousand of dollars)

1. CONSTITUTION AND NATURE OF ACTIVITIES

IQ Immigrants Investisseurs inc., incorporated under Part 1A of the Québec Companies Act, as authorized by Order-in-Council 699-2000, dated June 7, 2000, under section 36 of the Act respecting Investissement Québec and La Financière du Québec (R.S.Q., c. I-16.1), is a wholly-owned subsidiary of Investissement Québec and, as such, is not subject to income tax. It coordinates the collection, management and investment of sums of money belonging to investor immigrants. It assigns the income generated by investment of these amounts and administers a financial assistance program designed for companies, funded from this same investment income.

Section 46 of the Act respecting Investissement Québec and La Financière du Québec states that the parent company shall establish a business plan that includes the activities of its subsidiaries and whose form, content and frequency are set by the Gouvernement du Québec. This plan was approved on November 6, 2002 (Order-in-Council 1296-2002) and terminates on March 31, 2005.

2. MAIN ACCOUNTING POLICIES

The Corporation's financial statements were prepared in accordance with the accounting principles generally recognized in Canada. Management must make estimates and assumptions influencing the amounts and other elements of information presented in the financial statements.

Cash and cash equivalents

Under cash and cash equivalents, the Corporation presents cash and short-term investments maturing within three months' of their acquisition date.

Investments

Notes receivable from the Gouvernement du Québec are recorded at cost and purchase discounts are transferred to results using the effective interest method until their maturity.

Other investments are recorded at cost and, where applicable, the discounts and premiums are transferred to results using the straight-line method of discount amortization until their maturity date.

Financial intermediaries' fees

The Corporation pays fees to financial intermediaries for canvassing investor immigrants, seeking businesses to recommend for non-refundable financial contributions and closing investor immigrants' files.

Fees related to canvassing investor immigrants and seeking businesses to recommend are posted when the Corporation accepts the financial intervention. Fees related to canvassing investor immigrants are deferred and transferred to results over a period corresponding to the duration of investments, i.e. five years, according to the straight-line method. Fees related to closing the investor immigrants' files are posted the date the file is closed.

Fees – Related corporation, La Financière du Québec

The Corporation pays fees to La Financière du Québec for analyzing and authorizing non-refundable financial contributions recommended by a financial intermediary and for the authorizing disbursement of these contributions.

Fees related too analysis and authorization are posted when the Corporation accepts the financial intervention. Fees related to disbursements are recorded when each one is authorized.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousand of dollars)

2. MAIN ACCOUNTING POLICIES (cont'd)**Non-refundable financial contributions**

Non-refundable financial contributions granted to businesses are posted to results for the fiscal year in which the Corporation authorized the disbursement.

Administrative fees – Parent company

The Corporation pays administrative fees to Investissement Québec. These fees represent the share in the expenses of the parent company's support administrative units and the share of certain common costs that are attributable to the Corporation. These fees are recorded on an accrual basis.

Conversion of currency

The monetary assets and liabilities in foreign currency are converted into Canadian dollars at the exchange rate in effect on the date of the financial statements. The revenues and expenditures in foreign currency are, for their part, converted into Canadian dollars at the exchange rate in effect on the date of the transaction.

3. SHORT-TERM INVESTMENTS

	<u>2004</u>	<u>2003</u>
Bank acceptances, maturing less than three months after the acquisition date, from 2.19% to 2.50%, maturing between April 5 and April 15, 2004	4 592	4 542
Canadian Treasury Bonds, 2.00%, maturing June 17, 2004	398	
Open-end investments – Money market securities	23 448	
Bank acceptances, maturing more than three months after the acquisition date		69 083
	<u>28 438</u>	<u>73 625</u>

4. INVESTMENTS

	<u>2004</u>	<u>2003</u>
Shares and other equity interests	23 682	
Bonds and other debt instruments, from 3.15% to 12.25%, maturing between May 9, 2005 and July 22, 2013, face value of \$65.8 million	69 636	
Notes receivable from the Gouvernement du Québec, from 3.56% to 6.01%, maturing between January 24, 2006 and March 31, 2009, face value of \$1.1 billion	921 587	437 981
	<u>1 014 905</u>	<u>437 981</u>

The amount of investments in US dollars totalled \$5.7 million CAN at March 31, 2004.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousand of dollars)

4. INVESTMENTS (cont'd)

The amount of investments cashed over the next five fiscal years details as follows:

2005	
2006	18 665
2007	211 538
2008	349 333
2009	575 292
2010 and after	2 939
No maturity date	23 682
	<u>1 181 449</u>

5. SHORT-TERM BORROWINGS

At March 31, 2004, the Corporation had a bank credit line of \$2 M renewable in September 2004. The amounts used bear interest at the basic lending rate.

6. LONG-TERM BORROWINGS

	<u>2004</u>	<u>2003</u>
Notes – investor immigrants, interest-free, maturing between January 24, 2006 and March 31, 2009 ¹	<u>1 085 200</u>	<u>536 000</u>

The capital payments to make on long-term borrowings over the next five fiscal years details as follows:

2005	
2006	1 600
2007	191 200
2008	336 000
2009	556 400
	<u>1 085 200</u>

1 Capital payments are guaranteed by the Gouvernement du Québec.

7. CAPITAL-STOCK

Authorized

An unlimited number of class A shares, participating and voting, without nominal value.

	<u>2004</u>	<u>2003</u>
Issued and paid 1 000 class A shares	<u>1</u>	<u>1</u>

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousand of dollars)

8. INTEREST INCOME

	2004	2003
Interest on investments	32 085	15 112
Interest on cash and short-term investments	1 928	1 612
	<u>34 013</u>	<u>16 724</u>

9. ADMINISTRATIVE FEES – PARENT COMPANY

Administrative fees for:

	2004	2003
Salaries and fringe benefits	263	220
Rent	23	17
Travel, entertainment, advertising and promotion	10	8
Fees	13	3
Depreciation of fixed assets	18	16
Other	64	132
	<u>391</u>	<u>396</u>

10. VARIATION IN NON-CASH ELEMENTS LINKED TO OPERATING ACTIVITIES

	2004	2003
Interest and dividends receivable in investments	(1 117)	
Fees payable to the parent company	217	(42)
Fees payable to a related corporation, La Financière du Québec	189	15
Financial intermediaries fees payable	(236)	858
Other accounts payable	148	308
	<u>(799)</u>	<u>1 139</u>

11. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS

The fair value represents management's estimate of the market value at which a financial instrument could be exchanged between unrelated parties acting freely under fully competitive conditions in the normal course of business. The best indication of the fair value is the market price.

When available, the Corporation uses the market price to assess the fair market value of its financial instruments. When there are no markets or the markets are not considered sufficiently liquid, the Corporation measures the fair market value by applying evaluation methods and assumptions. Consequently, the estimated fair value is based on a market situation at a given point in time and does not necessarily reflect the instrument's future fair value.

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2004

(in thousand of dollars)

11. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS (cont'd)

The table below shows the fair value of the financial instruments presented in the financial statements, established using the evaluation methods and assumptions described below. The fair value of the assets and liabilities not considered financial instruments, i.e. deferred financial intermediaries' fees, is not included in the table.

Financial instruments shown in the financial statements:

	2004			2003		
	Book value	Fair value	Difference	Book value	Fair value	Difference
ASSETS						
Cash on hand and short-term investments	28 831	28 831		73 625	73 578	(47)
Investments	1 014 905	1 058 916	44 011	437 981	444 591	6 610
Other assets	1 117	1 117				
	<u>1 044 853</u>	<u>1 088 864</u>	<u>44 011</u>	<u>511 606</u>	<u>518 169</u>	<u>6 563</u>
LIABILITIES						
Long-term borrowings	1 085 200	956 557	128 643	536 000	445 220	90 780
Other liabilities	1 689	1 689		1 371	1 371	
	<u>1 086 889</u>	<u>958 246</u>	<u>128 643</u>	<u>537 371</u>	<u>446 591</u>	<u>90 780</u>
			<u>172 654</u>			<u>97 343</u>

The fair value of the financial instruments shown in the financial statements has been estimated using the following evaluation methods and assumptions:

Cash and short-term investments, others assets and liabilities

Because they mature in the short term, the fair value of cash and short-term investments maturing within three months of their acquisition date, other assets and liabilities is considered to be their book value.

The fair value of short-term investments maturing after three months of their acquisition date is estimated by capitalizing cash flows using market interest rates applying to investments with similar credit and risk conditions.

Investments

The fair value of investments in securities is determined based on market prices. The fair value of notes receivable from the Gouvernement du Québec is estimated by assessing cash flows using market interest rates applying to investments with similar credit and risk conditions.

Long-term borrowings

The fair value of borrowings is determined using market prices for debt instruments with similar credit and risk conditions.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousand of dollars)

12. INTEREST-RATE SENSITIVITY

The assets and liabilities schedule shown below outlines the picture at March 31, 2004 of the Corporation's sensitivity to interest rate fluctuations.

	Variable rate	Less than three months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Not sensitive to interest rates	Total
ASSETS							
Cash on hand and short-term investments <i>Real rate of return</i>		4 990 2,2 %				23 841	28 831
Investments <i>Real rate of return</i>				988 103 5,0 %	3 120 5,2 %	23 682	1 014 905
Other assets						51 223	51 223
		4 990		988 103	3 120	98 746	1 094 959
LIABILITIES AND EQUITY							
Long-term borrowings <i>Real rate of return</i>						1 085 200	1 085 200
Other liabilities						1 689	1 689
Equity						8 070	8 070
						1 094 959	1 094 959
Difference in sensitivity of elements posted to the financial statements		4 990		988 103	3 120	(996 213)	
Difference for 2003		38 883	34 742	437 981		(511 606)	

13. COMMITMENTS

In the normal course of business, the Corporation contracts various commitments. These represent the amounts of non-refundable financial contributions whose disbursement has not been authorized. The total amount of these commitments does not necessarily represent future liquid asset requirements, since some of them may be terminated without having generated disbursements.

Moreover, the Corporation agreed to pay fees to financial intermediaries to close investor immigrants' files.

The amounts of the commitments detail as follows:

	2004	2003
Non-refundable financial contributions	88 753	50 401
Financial intermediaries' fees	10 975	5 786
	<u>99 728</u>	<u>56 187</u>

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousand of dollars)

13. COMMITMENTS (cont'd)

Future estimated disbursements resulting from these commitments detail are as follows:

2005	27 466
2006	25 453
2007	24 573
2008	16 502
2009	<u>5 734</u>
	<u>99 728</u>

14. RELATED PARTY TRANSACTIONS

The Corporation is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Corporation did not carry out any business transactions with these related parties other than during the normal course of its activities and under normal business conditions. These transactions are not shown separately in the financial statements.

15. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

IQ IMMIGRANTS INVESTISSEURS INC.**AUDITOR'S REPORT**

To IQ Immigrants Investisseurs inc. shareholders

I have audited the balance sheet of IQ Immigrants Investisseurs inc. as at March 31, 2004, the statement of income and retained earnings and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present, in all material respects, the Company's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 31, 2004

LA FINANCIÈRE AGRICOLE DU QUÉBEC
(R.S.Q., c. L-0.1)

CONSOLIDATED REVENUE AND EXPENDITURE
for the year ended March 31, 2004
(in thousands of dollars)

	2004	2003
REVENUE		
Gouvernement du Québec contribution (Note 4)	332 320	306 679
Special Gouvernement du Québec contribution (Note 5)	10 000	10 000
Government of Canada contribution (Note 6)	220 620	107 991
Administrative fees	3 631	2 662
Interest and income on short-term investments	11 617	6 524
Other revenue	206	99
	<u>578 394</u>	<u>433 955</u>
EXPENDITURE		
Contribution to the:		
Farm Income Stabilization Insurance Fund	322 699	278 963
Crop Insurance Fund	22 670	24 884
Farm and Forestry Loan Insurance Fund	14 638	13 328
Farm Income Stabilization Account	32 540	13 759
Contribution to interest payments	5 058	5 877
Capital grant	8 382	6 709
Compensation under bovine spongiform encephalopathy recovery programs (Note 7)	93 929	
Canadian Farm Income Program allowances	4 617	3 432
Net-income stabilization account – Government of Canada	6 765	8 923
Grant – Centre d'études sur les coûts de production en agriculture	1 100	500
Administrative expenses (Note 8)	52 935	51 555
Interest	3 939	1 869
Loss on write-off of investments	1 029	
	<u>570 301</u>	<u>409 799</u>
EXCESS REVENUE OVER EXPENDITURE	<u>8 093</u>	<u>24 156</u>

CONSOLIDATED SURPLUS
for the year ended March 31, 2004
(in thousands of dollars)

	2004	2003
OPENING SURPLUS	92 650	68 494
EXCESS REVENUE OVER EXPENDITURE	<u>8 093</u>	<u>24 156</u>
CLOSING SURPLUS	<u>100 743</u>	<u>92 650</u>
Year-end surplus includes:		
Surplus assigned to General Fund (Note 9)	78 122	78 122
Unappropriated surplus	<u>22 621</u>	<u>14 528</u>
	<u>100 743</u>	<u>92 650</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED BALANCE SHEET

as at March 31, 2004

(in thousands of dollars)

	2004	2003
ASSETS		
Current assets		
Cash	13 477	6 846
Short-term investments (Note 10)	90 209	100 990
Accounts receivable and accrued interest	637	1 302
Fédération des producteurs acéricoles du Québec receivable (Note 11)	21 000	23 000
Farm Income Stabilization Insurance Fund receivable (Note 12)	326 146	94 508
Gouvernement du Québec receivable (Note 13)	17 966	1 167
Government of Canada receivable	28 884	5 138
Payments receivable on loans (Note 14)	1 761	2 026
Payments receivable on investments (Note 16)	76	
Prepaid expenses	778	128
Assets destined for sale (Note 15)	370	
	501 304	235 105
Gouvernement du Québec receivable (Note 13)	6 430	6 513
Loans (Note 14)	13 233	16 439
Investments (Note 16)	3 272	660
Fixed assets (Note 17)	3 460	3 694
	527 699	262 411
LIABILITIES		
Current liabilities		
Bank loans (Note 18)	199 700	41 000
Accounts payable and accrued liability (Note 19)	13 482	13 996
Deferred federal assistance (Note 20)	11 000	
Owing to the Gouvernement du Québec	146	841
Owing to the Government of Canada	6 507	2 769
Owing to the Fund (Note 21)	107 982	48 985
Provision for Canadian Farm Income Program compensation	2 065	1 604
Provision for compensation under bovine spongiform encephalopathy recovery programs	32 491	
Provision for vacation pay	4 433	3 701
	377 806	112 896
Deferred Government assistance	66	75
Gouvernement du Québec advance (Note 22)	16 128	16 128
Deferred special Gouvernement du Québec contribution (Note 5)	20 000	30 000
Provision for sick leave (Note 23)	12 956	10 662
	426 956	169 761
SURPLUS (Note 9)	100 743	92 650
	527 699	262 411

COMMITMENTS (Note 26)

Norman Johnston, Acting President and CEO
 Laurent Pellerin, Chairman of the Board of Directors

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED CASH FLOW
for the year ended March 31, 2004
(in thousands of dollars)

	2004	2003
OPERATING ACTIVITIES		
Excess revenue over expenditure	8 093	24 156
Cash flow-neutral elements:		
Capitalized interest on investments	(157)	(10)
Amortization of fixed assets	1 615	1 616
Gain on disposal of fixed assets	(6)	(2)
Write-off on investments	1 029	
Variation in the deferred special Gouvernement du Québec contribution	(10 000)	(10 000)
Variation in deferred Government assistance	(9)	(15)
	<u>565</u>	<u>15 745</u>
Variation in non-cash elements linked to operations:		
Accounts payable and accrued interest	665	(644)
Fédération des producteurs acéricoles du Québec receivable	2 000	(23 000)
Farm Income Stabilization Insurance Fund receivable	(231 638)	(8 478)
Gouvernement du Québec receivable	(16 716)	1 074
Government of Canada receivable	(23 746)	14 888
Prepaid expenses	(650)	133
Assets destined for sale	(370)	
Accounts payables and accrued liability	(638)	(9 387)
Deferred federal assistance	11 000	
Owing to the Gouvernement du Québec	(695)	8
Owing to the Government of Canada	3 738	(2 656)
Owing to the Fund	58 997	48 471
Provision for Canadian Farm Income Program compensation	461	(1 009)
Provision for compensation under bovine spongiform encephalopathy recovery programs	32 491	
Provision for vacation time	732	248
Provision for sick leave	2 294	689
Adjustment of opening balances		5 916
	<u>(162 075)</u>	<u>26 253</u>
Cash flows linked to operating activities	<u>(161 510)</u>	<u>41 998</u>
INVESTMENT ACTIVITIES		
Short-term investments	(15 000)	
Cashing of loans	3 471	3 809
Acquisition of investments	(3 560)	(650)
Acquisition of fixed assets	(1 257)	(1 436)
Proceed from disposal of fixed assets	6	4
Cash flows linked to investment activities	<u>(16 340)</u>	<u>1 727</u>
Amounts carried forward	<u>(177 850)</u>	<u>43 725</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED CASH FLOW (cont'd)
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
Amounts brought forward	<u>(177 850)</u>	<u>43 725</u>
FINANCING ACTIVITIES		
Bank loans	19 800	
Reimbursement of long-term debt	<u> </u>	<u>(21 600)</u>
Cash flows linked to financing activities	<u>19 800</u>	<u>(21 600)</u>
NET VARIATION IN CASH AND CASH EQUIVALENTS	(158 050)	22 125
OPENING CASH AND CASH EQUIVALENTS	<u>66 836</u>	<u>44 711</u>
CLOSING CASH AND CASH EQUIVALENTS	<u><u>(91 214)</u></u>	<u><u>66 836</u></u>
Closing cash and cash equivalents include:		
	<u>2004</u>	<u>2003</u>
Cash	13 477	6 846
Short-term investments	75 209	100 990
Banks loans	<u>(179 900)</u>	<u>(41 000)</u>
	<u><u>(91 214)</u></u>	<u><u>66 836</u></u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC**FARM INCOME STABILIZATION INSURANCE FUND**

REVENUE AND EXPENDITURE AND DEFICIT
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
REVENUE		
Participants' contributions	161 385	139 446
La Financière agricole du Québec contribution	322 699	278 963
Interest and income on short-term investments	842	3 270
Other revenue	<u>13</u>	<u>13</u>
	<u>484 926</u>	<u>421 692</u>
EXPENDITURE		
Compensation to participants	559 828	674 875
Loss on short-term investment		4 926
Interest	5 865	1 173
Other expenses	<u>14</u>	<u>14</u>
	<u>565 707</u>	<u>680 974</u>
INSUFFICIENCY REVENUE OVER EXPENDITURE	(80 781)	(259 282)
OPENING DEFICIT	<u>(291 610)</u>	<u>(32 328)</u>
CLOSING DEFICIT	<u>(372 391)</u>	<u>(291 610)</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC**FARM INCOME STABILIZATION INSURANCE FUND**

BALANCE SHEET
as at March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	237	
Accounts receivable and accrued interest	3 556	1 923
La Financière agricole du Québec contribution receivable (Note 21)	33 561	23 017
Disaster Assistance Fund for Farm Income receivable		414
Advances to participants (Note 24)	<u>142 863</u>	<u>23 519</u>
	<u>180 217</u>	<u>48 873</u>
LIABILITIES		
Current liabilities		
Bank overdraft		249
Accounts payable and accrued liability (Note 19)	28 188	39 947
Owing to La Financière agricole du Québec (Note 12)	326 146	94 508
Unearned contributions	81 481	15 073
Provision for compensation	<u>116 793</u>	<u>190 706</u>
	552 608	340 483
DEFICIT (Note 32)	<u>(372 391)</u>	<u>(291 610)</u>
	<u>180 217</u>	<u>48 873</u>

Norman Johnston, Acting President and CEO
Laurent Pellerin, Chairman of the Board of Directors

LA FINANCIÈRE AGRICOLE DU QUÉBEC**CROP INSURANCE FUND****REVENUE AND EXPENDITURE AND SURPLUS**

for the year ended March 31, 2004

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
REVENUE		
Participants' contributions	24 285	26 526
La Financière agricole du Québec contribution	22 670	24 884
Interest and income on short-term investments	<u>1 835</u>	<u>2 650</u>
	<u>48 790</u>	<u>54 060</u>
EXPENDITURE		
Compensation to participants	40 948	42 205
Loss on short-term investments	2 191	3 941
Interest on allowances	<u>46</u>	<u>386</u>
	<u>43 185</u>	<u>46 532</u>
EXCESS REVENUE OVER EXPENDITURE	5 605	7 528
OPENING SURPLUS	<u>59 677</u>	<u>52 149</u>
CLOSING SURPLUS	<u><u>65 282</u></u>	<u><u>59 677</u></u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC**CROP INSURANCE FUND**

BALANCE SHEET
as at March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash	55	1 281
Short-term investments (Note 10)	10 290	32 877
Accounts receivable and accrued interest	377	1 926
La Financière agricole du Québec contribution receivable (Note 21)	<u>41 290</u>	<u>9 413</u>
	52 012	45 497
Investments (Note 16)	<u>17 641</u>	<u>17 616</u>
	<u><u>69 653</u></u>	<u><u>63 113</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liability	294	421
Unearned contributions	206	247
Provision for compensation	<u>3 871</u>	<u>2 768</u>
	4 371	3 436
SURPLUS (Note 33)	<u>65 282</u>	<u>59 677</u>
	<u><u>69 653</u></u>	<u><u>63 113</u></u>

Normand Johnston, Acting President and CEO
Laurent Pellerin, Chairman of the Board of Directors

LA FINANCIÈRE AGRICOLE DU QUÉBEC**FARM INCOME STABILIZATION ACCOUNT FUND****CHANGE IN FUND BALANCE**

for the year March 31, 2004

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
OPENING BALANCE	11 686	
Contribution des participants	21 565	13 664
La Financière agricole du Québec contribution	32 540	13 759
Gouvernement du Canada transitional assistance	107	5 350
Interest distributed in participant accounts	162	81
Participant withdrawals	<u>(40 756)</u>	<u>(21 168)</u>
CLOSING BALANCE	<u>25 304</u>	<u>11 686</u>

BALANCE SHEET

as at March 31, 2004

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
La Financière agricole du Québec contribution receivable (Note 21)	<u>25 304</u>	<u>11 686</u>
LIABILITIES		
Current liabilities		
Participant accounts	12 504	11 686
Transitional measures to be paid into participant accounts (Note 25)	<u>12 800</u>	
	<u>25 304</u>	<u>11 686</u>

Norman Johnston, Acting President and CEO

Laurent Pellerin, Chairman of the Board of Directors

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

La Financière agricole du Québec is a legal entity, an agent of the State, incorporated under the Act respecting La Financière agricole du Québec, (R.S.Q., c. L-0.1). La Financière agricole du Québec is managed in partnership with the agricultural sector and its main mission is to support and promote, from a sustainable development viewpoint, agricultural and agrifood sector development. It offers operations income protection, insurance, investment and farm/forestry financing products and services adapted to the management of risks inherent in this activity sector.

Further, La Financière agricole administers the Farm and Forestry Loan Insurance Fund, assuming the insurance fees payable for the Fonds.

2. DESCRIPTION OF PROGRAMS

I) Farm income stabilization insurance

The Farm income stabilization insurance program offers agricultural producers protection against fluctuating market prices. Its goal is to guarantee them a positive net annual income. For this purpose, compensation is paid to the participant when the net annual income falls short of the net annual stabilised income.

II) Crop insurance

The Crop insurance program was set up to enable producers to insure themselves against the loss of crop yields due to uncontrollable risks not caused by human intervention.

III) Farm Income Stabilization Account

The Farm Income Stabilization Account program is designed to offer Québec agricultural operations a risk management tool based on overall income earned from their operation. The program allows for the establishment of individuals funds into which participants and La Financière agricole du Québec pay contributions, and makes provision for withdrawing cash to offset farm income losses. The interest paid into participants' accounts is calculated using the reference rate for one-year guaranteed investment certificates.

The coverage offered by the program applies to unstabilized productions not subject to quotas, with the exception of the products "apples", "potatoes", "canola" and "soybeans", and productions eligible for the Net Income Stabilization Account (NISA).

Following the implementation of the Canadian Agricultural Income Stabilization Program, La Financière agricole ended the farm income stabilization program with the 2002 contribution year. Consequently, participants will have five years to make withdrawals from their accounts at a minimum rate of 20% per year as of July 1, 2004.

IV) Bovine Spongiform Encephalopathy (BSE) Recovery Program

The Bovine Spongiform Encephalopathy (BSE) Recovery Program established under a Canada-Québec agreement offers financial assistance to the farm clientele affected by mad cow disease. In phase 1, the program covers the period May 20 to August 31, 2003 providing for slaughter support for producers of cattle and other ruminants, which is paid according to the formula 60% federal government and 40% Québec government.

In phase 2, the Cull Animal Program offers financial assistance to dairy producers, feeder calf producers and producers of other ruminants to offset severely depressed market prices. This program applies to livestock owned as at September 1, 2003. Program costs are paid according to the formula 60% federal government and 40% provinces.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

2. DESCRIPTION OF PROGRAMS (cont'd)**V) BSE recovery program and
Producer support program for cull animals following the BSE**

The BSE recovery program, implemented by the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec (MAPAQ), offers financial assistance to beef and slaughter cattle producers and husbandry cattle to offset the drop in market prices. The program covers the animals owned on May 20, 2003 and sold between May 20 and December 31, 2003.

The producer support program for cull animals following the BSE implemented by the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec (MAPAQ) offers financial assistance corresponding to 40% of the cost of Phase 2 of the federal program and envisages increasing the cull rate applied to the program for the "dairy cattle" category.

La Financière agricole du Québec administers both of these programs.

VI) Canadian Agricultural Income Stabilization Program (CAIS)

The Canadian Agricultural Income Stabilization Program was set up on October 31, 2003 following the signing of the Canada-Québec implementation agreement in order to enact the federal-provincial-territorial framework agreement on a strategic farm and agrifood framework for the 21st century. It is designed to offer farm operations a risk management tool based on the operation's aggregate income. The Canadian and Québec governments assume 60% and 40% respectively of the overall program cost.

For this purpose, the program requires setting up individual funds for participants' deposits and makes provisions for the withdrawal of liquid assets and the payment of government contributions offsetting the drop in income based on the level of coverage chosen by participants.

The program was first implemented in 2003. At March 31, 2004, the program had not yet been set up in Québec.

**VII) Canadian Farm Income Program (CFIP) and
Agricultural Income Disaster Assistance Program (AIDA)**

The Canadian Farm Income Program, set up under the federal-provincial agreement establishing the Canadian Farm Income Program resulting from the Canada-Québec farm risk management framework agreement, 2000-2003, covers fiscal 2000, 2001 and 2002. Like AIDA, which covered 1998 and 1999, CFIP assists farm operations that have suffered significant drops in income. The Canadian government and the Gouvernement du Québec assume 60% and 40% respectively of the overall program cost based on compensation paid to producers under other provincial insurance programs.

At March 11, 2004, all Disaster Assistance Fund for Farm Income assets and liabilities were sold and balance of the producers' share of \$431 M was transferred to the Farm Income Stabilization Insurance Fund as a contribution credit. Items were as follows before the February 13, 2004 liquidation:

	February 13, 2004	2003
Current assets	567	501
Government of Canada receivable		377
Owing to Farm Income Stabilization Insurance Fund	(431)	(414)
Owing to the Gouvernement du Québec	(136)	(464)

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

2. DESCRIPTION OF PROGRAMS (cont'd)

VIII) Farm financing

The Farm Financing Program is designed to make it easier for farm operations to obtain funding from financial institutions by authorizing loan guarantees through the Farm and Forestry Loan Insurance Fund in order to help these operations start up, develop and make it through difficult economic situations.

IX) Interest rate increase protection program

The interest-rate increase protection program minimizes the impact of an interest rate increase on farm and forestry operations, by contributing to interest payments.

X) Start-up, development and training assistance program

The start-up, development and training assistance program is designed to help young farmers get started, encourage them to get proper training and promote agricultural operation the development through an additional contribution to interest payments or capital subsidies.

XI) Financial assistance to maple product operations

A financial assistance to maple product operations program and short-term financing under special measures targeting maple products were renewed by La Financière agricole during the year to promote the development of maple product marketing. The financial assistance awarded is in the form of a special contribution to interest payments.

XII) Beekeepers financing assistance

A beekeepers financing assistance program was authorized by La Financière agricole during the fiscal year to promote herd rebuilding. Financial assistance is awarded in the form of a special contribution for interest payments.

XIII) Forestry financing

La Financière agricole administers the forestry financing program for the Ministère des Ressources naturelles, de la Faune et des Parcs. This program is designed to make it easier for farm operations to obtain funding from financial institutions by authorizing loan guarantees through the Farm and Forestry Loan Insurance Fund in order to support the creation, maintenance or development of forest production units.

3. ACCOUNTING POLICIES

Using estimates

The preparation of financial statements in keeping with the accounting principles generally recognized in Canada requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. These same estimates and assumptions also affect the presentation of events as at the date of the financial statements, income items and expenditures for the fiscal year. Significant estimates include the service life of fixed assets, provisions and certain fees payable. Management believes that these estimates are adequate.

Cash flow statements

The cash flow statements for the funds administered by La Financière agricole are not presented since they would not provide additional useful information for understanding cash flows in the fiscal year.

Short-term investments

Short-term investments are recorded at cost or market value, whichever is less.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

3. ACCOUNTING POLICIES (cont'd)**LA FINANCIÈRE AGRICOLE DU QUÉBEC****Consolidation perimeter**

The consolidated financial statements reflect the accounts of La Financière agricole and its subsidiary, Capital Financière agricole inc.

The 37.5% share the Société holds in a joint venture in the Tripartite Gross Crop Income Insurance Plan Fund is posted using the proportionate consolidation method.

The Crop Insurance Fund and Farm Income Stabilization Fund are not consolidated since they are separate trust funds under section 70 of the Act respecting La Financière agricole du Québec. Similarly, the Farm Income Stabilization Account is not consolidated since it constitutes a trust fund administered by La Financière agricole under section 37 of its program, as permitted by section 22 of the Act respecting La Financière agricole du Québec.

Investments

Venture-capital investments take the form of capital stock or debentures. La Financière agricole records its investments at consolidation value when its share in an issuing corporation's voting shares enable it to significantly influence this satellite corporation's financial and administrative decisions. Capital-stock investments in which La Financière agricole exercises no control or notable influence, and debentures, are recorded at acquisition cost plus interest accrued. Investments are reduced by all permanent declines in value and provisions for losses, where applicable.

An investment is classified a doubtful loan when the quality of credit has deteriorated to the point that the Société is no longer reasonably certain of recovering the entire amount in capital and interest. At this point, interest income ceases to be recorded and a provision for losses is posted.

Provision for losses

If loans are determined to be doubtful, their book value is rolled back to their estimated realizable amount. When the amounts and time for realizing future cash flows cannot be reasonably estimated reliably, the estimated realizable amounts are measured in keeping with observable market prices for these loans or according to the judgement of Société management.

The provision is established through a case-by-case analysis and recorded as soon as the losses can be reasonably evaluated. The annual change in this provision is recorded in the revenue and expenditure statement.

Fixed assets

Fixed assets are recorded at cost and amortized over their service life using the straight-line method at the following rates:

Equipment	20% to 33.33%
Computer development	20% to 33.33%

Deferred Government assistance

The credits used to acquire forest-sector fixed assets are posted to deferred Government assistance and transferred to results using the same method and amortization rates as the fixed assets acquired.

Contributions, allowances and transfer payments

Contributions, allowances and transfer payments are posted to expenditures for the fiscal year when authorized and when the beneficiary has met all the eligibility criteria.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

3. ACCOUNTING POLICIES (cont'd)

LA FINANCIÈRE AGRICOLE DU QUÉBEC (cont'd)

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that La Financière agricole lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

La Financière agricole's policy consists of presenting, as cash and cash equivalents, bank balances, short-term investments and bank loans maturing within three months of the acquisition date.

FARM INCOME STABILIZATION INSURANCE FUND AND CROP INSURANCE FUND

Contributions, compensation and transfer payments

Contributions, compensation from the Farm Income Stabilization Insurance Program and allowances under the Crop Insurance Program are posted to revenues or expenditures for the fiscal year in which the insurance year ends.

The year 2003 was used for the Crop Insurance Program. For the different productions covered by the Farm Income Stabilization Insurance Program, the insurance years used are presented in Note 32.

4. CONTRIBUTION DU GOUVERNEMENT DU QUÉBEC

The Québec Minister of Agriculture, Fisheries and Food and La Financière agricole du Québec signed a seven-year agreement, which came into effect on April 1, 2001. Under this agreement, the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec pays to and for the benefit of the Société an annual amount of \$305 million.

	2004	2003
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec contribution under: agreement	305 000	305 000
bovine spongiform encephalopathy recovery programs (Note 7)	25 643	
Ministère des Ressources naturelles, de la Faune et des Parcs contribution	1 677	1 679
	<u>332 320</u>	<u>306 679</u>

5. SPECIAL GOUVERNEMENT DU QUÉBEC CONTRIBUTION

On April 9, 2001, the Gouvernement du Québec paid a special contribution of \$50 million to set up a reserve to reduce future La Financière agricole contributions to the Farm Income Stabilization Insurance Fund. This amount is amortized using the straight-line method over five years.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

6. GOVERNMENT OF CANADA CONTRIBUTION

The Government of Canada contribution is established in keeping with the following agreements:

	<u>2004</u>	<u>2003</u>
Canada-Québec framework agreement on agricultural risk management		71 292
Federal-provincial-territorial framework agreement on a strategic farm and agrifood framework for the 21st	115 378	
Federal-provincial agreement establishing the Canada Farm Income Program	3 082	2 875
Canada-Québec agreement on an additional federal contribution to the Farm Income Insurance-Stabilization Plan	26 834	5 645
Canada-Québec agreement on transitional assistance	25 045	28 179
Canada-Québec agreement establishing the BSE recovery program	<u>50 281</u>	
	<u><u>220 620</u></u>	<u><u>107 991</u></u>

The federal contribution was allocated to the following programs:

	<u>2004</u>	<u>2003</u>
Farm income stabilization insurance	143 179	84 403
Crop insurance	22 663	20 713
Canada Farm Income Program	3 082	2 875
Canadian Farm Income Stabilization Program	1 415	
BSE Recovery Program (Note 7)	<u>50 281</u>	
	<u><u>220 620</u></u>	<u><u>107 991</u></u>

The Canadian government reimburses 60% (2003: 50%) of the administrative expenses of the Crop Insurance Program and 60% of the administrative expenses of the Canadian Farm Income Stabilization Program.

During the fiscal year, La Financière agricole made an agreement with the Government of Canada for recording the remaining \$51.5 million following the suspension of the Farm Income Stabilization Account (FISA) for certain productions, in keeping with section 4.4 of the Canada-Québec agreement on additional assistance for overall agricultural risk programs, including \$56.1 million an amount obtained in fiscal 2001-2002. Consequently, \$28.8 million are allocated for the FISA contribution and \$22.7 million for the Start-up Assistance Program, whose expenditures for these programs were reported over the past three fiscal years.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

7. RECONCILIATION OF EXPENDITURES AND INCOME FOR BOVINE SPONGIFORM ENCEPHALOPATHY (BSE) PROGRAMS

Assumed by:	Government of Canada	Québec Ministère de l'Agriculture, des Pêcheries et de l'Alimentation	La Financière agricole du Québec	Total
Bovine Spongiform Encephalopathy (BSE) Program				
Phase 1:	31 742	2 022	19 140	52 904
Phase 2:	17 725			17 725
	<u>49 467</u>	<u>2 022</u>	<u>19 140</u>	<u>70 629</u>
BSE recovery support program		10 000		10 000
Producer support program for cull animals following BSE		<u>13 300</u>		<u>13 300</u>
Total compensation	49 467	25 322	<u>19 140</u>	<u>93 929</u>
Administrative costs	<u>814</u>	<u>321</u>		
	50 281	25 643		
Contributions received during fiscal year	<u>(32 091)</u>	<u>(10 225)</u>		
Contributions receivable	<u>18 190</u>	<u>15 418</u>		

8. ADMINISTRATIVE EXPENSES

	2004	2003
Salaries and fringe benefits	40 873	39 676
Transport and communication	3 174	3 200
Rent	3 338	3 217
Professional administrative and other services	1 607	2 054
Materials and supplies	701	985
Depreciation of fixed assets	1 615	1 616
Maintenance and repairs	162	307
New layout expenses	<u>1 465</u>	<u>500</u>
	<u>52 935</u>	<u>51 555</u>

9. SURPLUS APPROPRIATED TO THE GENERAL FUND

La Financière agricole du Québec set up a General Fund to cover the components linked to insurance, income protection and financing programs. As at March 31, 2003 and 2004, the surplus assigned to the general reserve was \$78 122 M.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

10. SHORT-TERM INVESTMENTS**La Financière agricole du Québec**

	<u>2004</u>	<u>2003</u>
Bonds		27 444
Treasury bill		1 481
Commercial papers, 2.29% to 2.37%, maturing up to May 19, 2004 (market value is \$65 802 M; 2003: \$45 651 M)	65 726	45 559
Floating-rate notes, 2.41% to 2.45%, maturing up to October 26, 2004 (market value is \$15 010 M; 2003: equal to cost)	15 000	17 487
Promissory notes, 2.25% to 2.27%, maturing up to April 28, 2004 (market value is \$9 492 M; 2003: \$9 048 M)	<u>9 483</u>	<u>9 019</u>
	<u>90 209</u>	<u>100 990</u>

Farm Income Stabilization Insurance

	<u>2004</u>	<u>2003</u>
Bonds		18 227
Treasury bill		9 858
Floating rate note, 2.45%, maturing on October 18, 2004 (market value is \$10 011 M)	10 000	
Caisse de dépôt et placement du Québec: Demand deposits, 2.25%	<u>290</u>	<u>4 792</u>
	<u>10 290</u>	<u>32 877</u>

11. FÉDÉRATION DES PRODUCTEURS ACÉRIQUES DU QUÉBEC RECEIVABLE

On March 12 mars 2004, La Financière agricole and the Fédération des producteurs acéricoles du Québec signed a new credit agreement for a maximum amount of \$100 million (2003: \$100 million). This special financing measure is designed to fund the implementation and operations of a sales agency for the maple products sector, whose activities are related to the Fédération des producteurs acéricoles du Québec.

	<u>2004</u>	<u>2003</u>
Bearing interest at the prime rate minus 0.25%, Maturing February 28, 2005	<u>21 000</u>	<u>23 000</u>

12. FARM INCOME STABILIZATION INSURANCE FUND RECEIVABLE

	<u>2004</u>	<u>2003</u>
Bearing interest at rates varying between 2.23% and 2.8% maturing January 28, 2005, repayable at maturity	<u>326 146</u>	<u>94 508</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

13. GOUVERNEMENT DU QUÉBEC RECEIVABLE

	2004	2003
Contributions receivable – BSE programs (Note 7)	15 418	
Accumulated sick leave paid by the Gouvernement du Québec	8 817	7 428
Operations related to forestry-sector financing	161	252
	<u>24 396</u>	<u>7 680</u>
Portion maturing in the short-term	<u>17 966</u>	<u>1 167</u>
	<u>6 430</u>	<u>6 513</u>

14. LOANS

	2004	2003
Balance of loans bearing interest at rates of:		
2.5%	6 139	7 506
5%	1 533	1 868
7%	1 335	1 583
8%	5 724	7 126
Prime rate plus 0.5%	263	382
	<u>14 994</u>	<u>18 465</u>
Portion maturing in the short term	<u>1 761</u>	<u>2 026</u>
	<u>13 233</u>	<u>16 439</u>
Balance of loans maturing in:		
Less than 1 year	42	188
1 to 5 years	1 945	2 747
More than 5 years	<u>13 007</u>	<u>15 530</u>
	<u>14 994</u>	<u>18 465</u>

Capital and interest are guaranteed by the Gouvernement du Québec's Consolidated Revenue Fund or the Farm and Forestry Loan Insurance Fund. These loans were granted under the Farm Credit Act and the Forestry Credit Act, which were no longer effective as of August 10, 1988 and June 29, 1984 respectively.

15. ASSETS DESTINED FOR SALE

In March 2004, the Société acquired a block of assets representing an operating unit in the hog industry. Management does not intend to operate the farm and plans to dispose of these assets in the short term. The assets are recorded at their fair value less selling cost.

Under section 18 of the Act respecting farm-loan insurance and forestry-loan insurance, the Farm and Forestry Loan Insurance Fund must reimburse the Société for the amount of losses and expenditures eligible under the Regulation. Further, the sums recovered by the Société will be returned to the Fund up to the amount of the sums used to protect the receivable.

LA FINANCIÈRE AGRICOLE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2004

(in thousands of dollars)

16. INVESTMENTS**La Financière agricole du Québec**

	2004	2003
Common shares – portfolio investments	350	200
Common shares – satellite corporation	125	
	475	200
Debentures, 9% and 10%, maturing up to February 2014		
Capital and capitalizable interest are cashable as follows:		
\$75 809 in 2005, \$262 918 in 2006,		
\$409 464 in 2007, \$427 437 in 2008		
and \$1 697 406 in future fiscal years	2 873	460
Portion maturing in the short-term	76	
	2 797	460
	3 272	660

Under a Gouvernement du Québec order-in-council, dated December 11, 2002, the Société and its subsidiary Capital Financière agricole inc. (the Group) are authorized to grant loans, advances and contributions, and to make financial commitments to physical persons, legal persons or corporations for an amount not to exceed \$5 million. Further, the Group cannot hold more than 49% of the voting shares of a corporation or legal person.

Investment in the satellite corporation has been recorded at acquisition cost given that the investment occurred at the end of the fiscal year and, consequently, no share in the satellite corporation's results was posted at March 31, 2004.

At March 31, 2004, there was no provision for losses.

Farm Insurance Fund

Participation deposits are invested in a special fund with the Caisse de dépôt et placement du Québec in keeping with the Farm Insurance Fund's investment policy and are expressed in units. These units may be reimbursed with advance notice according to the terms and conditions of Caisse rules at the market value of the special fund's net equity level at the end of each month. Demand deposits, presented under short-term investments, are also invested in a special fund.

	2004	2003
Participation deposits, at cost (market value is \$23 716 M, 2003: equal to cost)	17 641	17 616

17. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net
Equipment	2 625	1 392	1 233
Computer development	4 935	2 708	2 227
	7 560	4 100	3 460
			3 694

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

18. BANK LOANS

	2004	2003
Promissory notes – financial institutions, 2.2% to 3.06%, maturing up to January 28, 2005	149 700	41 000
Bank acceptances – financial institutions, 2.2% to 3.04%, maturing up to September 10, 2004	50 000	
	<u>199 700</u>	<u>41 000</u>

Under Gouvernement du Québec orders-in-council dated December 11, 2002 and February 26, 2003, the Société and its subsidiary Capital Financière agricole inc. are authorized to contract short-term borrowings up to a total of \$383 million until March 31, 2008 from financial institutions and other lenders or from the Gouvernement du Québec Financing Fund. The total short-term borrowings outstanding for both corporations may not exceed these limits.

At March 31, 2004, the Société held financial agreements with four financial institutions for authorized amounts totalling \$638 million. The amounts used bear interest at the lender's base rate.

19. ACCOUNTS PAYABLE FOR ACCRUED LIABILITY

La Financière agricole du Québec

	2004	2003
Remuneration	2 437	1 761
Operations	2 157	2 166
Contribution to payment of accrued interest and interest due	1 730	2 269
Capital grant	6 987	7 430
Other	171	370
	<u>13 482</u>	<u>13 996</u>

Farm Income Stabilization Insurance Fund

	2004	2003
Contribution credits for amounts received under Canada Québec agreements on:		
the additional federal contribution to the Farm Income Stabilization Insurance Plan	13 908	10 334
Transition assistance	12 557	14 090
Accounts payable	1 723	15 523
	<u>28 188</u>	<u>39 947</u>

20. DEFERRED FEDERAL ASSISTANCE

On March 11, 2004, La Financière agricole cashed \$55 million from the federal government under the Canada-Québec agreement on transition assistance. Of this amount, \$11 million intended for producers having contributed to Farm Income Stabilization Account, will be paid out in the coming year.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
 March 31, 2004
 (in thousands of dollars)

21. OWING TO THE FUND

	2004	2003
Farm Income Stabilization Insurance Fund:		
Interest-free, no repayment terms	33 561	23 017
Crop Insurance Fund:		
Interest-free, no repayment terms	390	405
Bearing interest at rate of 2.2%, maturing April 30, 2004	40 900	9 008
	41 290	9 413
Farm Income Stabilization Account Fund:		
Interest-free, no repayment terms	12 800	
Bearing interest at one-year guaranteed investment certificate rates, no repayment terms	12 504	11 686
	25 304	11 686
Tripartite Gross Crop Income Insurance Plan Fund (Government of Canada):		
Accrued interest		3
Bearing interest at rate of 2.2%, maturing April 30, 2004	7 827	4 866
	7 827	4 869
	107 982	48 985

22. GOUVERNEMENT DU QUÉBEC ADVANCE

	2004	2003
Interest-free, no repayment terms	4 128	4 128
Agreed to for constitution of subsidiary, bearing interest at the lesser of 50% of the net annual profit made by the subsidiary or the proportion of the net annual profit made by the subsidiary equivalent to the ratio of the advance over the subsidiary's total assets, maturing the date the subsidiary is dissolved, no later than March 31, 2008	12 000	12 000
	16 128	16 128

23. PROVISION FOR SICK LEAVE

	2004	2003
Opening balance	10 662	9 973
Charge for the year	3 048	1 254
Benefits paid during the year	(754)	(565)
Closing balance	12 956	10 662

LA FINANCIÈRE AGRICOLE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2004

(in thousands of dollars)

24. ADVANCES TO PARTICIPANTS

Advances to participants represent a portion of the compensation paid to producers as a down payment for those productions whose insurance year ends in a subsequent fiscal year.

	2004	2003
Grain, grain-corn and soybean producers	140 687	23 519
Potato producers	2 176	
	<u>142 863</u>	<u>23 519</u>

25. TRANSITIONAL MEASURES TO BE PAID INTO PARTICIPANT ACCOUNTS

On November 26, 2003, the board of directors of La Financière agricole enacted measures to facilitate the transition from the Farm Income Stabilization Account to the Canadian Farm Income Stabilization Program.

At March 31, 2004, La Financière agricole did not possess all of the information required to perform the calculations and, consequently, no contribution was made to participants' account at this time.

26. COMMITMENTS

La Financière agricole's commitments under the start-up, development and training assistance program as capital grants for the fiscal years ending March 31, 2005, 2006 and 2007 totalled \$5 993 M (2003: \$5 618 M).

Commitments related to the Centre d'études sur les coûts de production en agriculture for fiscal 2004-2005 total \$1 100 M (2003: \$1 100 M). Additional commitments as yet to be determined are also envisaged for the next three fiscal years.

27. PENSION PLANS

The staff members of La Financière agricole participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

La Financière agricole contributions charged to the year-end statement amount to \$1 284 M (2003: \$1 262 M). The liability of La Financière agricole towards these Government plans is restricted to its contributions as an employer.

28. RELATED PARTY TRANSACTIONS

The main related party transactions are as follows:

	2004	2003
Rent and new layout expenses - Société immobilière du Québec	4 360	3 473
Supplies – Government Services Fund	1 442	1 519
Grant – Centre d'études sur les coûts de production en agriculture	1 100	500
Interest income:		
Farm Income Stabilization Insurance Fund	5 834	949
Interest expenditure:		
Farm Income Stabilization Insurance Fund	633	1 182
Crop Insurance Fund	976	134
Farm Income Stabilization Account Fund	162	81
Tripartite Gross Crop Income Insurance Plan Fund	223	40

LA FINANCIÈRE AGRICOLE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2004

(in thousands of dollars)

28. RELATED PARTY TRANSACTIONS (cont'd)

In addition to the related party transactions disclosed in its statements and measured at exchange value, La Financière agricole is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. La Financière agricole did not conclude any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

29. FINANCIAL INSTRUMENTS

The fair value of the short-term financial instruments equals their book value given that they mature in the near future.

The long-term financial instruments held by the Société have no stock price. Consequently, the fair value of some of these instruments has been determined using evaluation methods used on the venture-capital market. The following calculation methods and assumptions were used:

- The fair value of fixed-rate loans was obtained by actualizing cash flows at the interest rate in effect on the market at the fiscal year-end for the corresponding terms. The fair value of variable-rate loans is presumed to equal their book value.
- Common shares in private-capital firms are presented at acquisition cost unless a concrete, quantifiable even with a significant impact on the firm's value justifies an increase or decrease in value. However, if certain instruments remain at acquisition cost for a period exceeding 36 months due to the absence of events, they will be evaluated in greater detail.
- The fair value of debentures is obtained by capitalizing cash flows at the market interest rate at year-end for corresponding terms. However, this calculation does not take into account future levies envisaged in certain debenture agreements given the lack of accurate information for capitalizing these cash flows.

The fair values of the receivable and Gouvernement du Québec advance cannot reasonable be estimated given the absence of a market.

	<u>Book value</u>	<u>Fair value</u>
Loans	14 994	14 524
Common shares	475	475
Debentures	2 873	2 552
Gouvernement du Québec receivable	6 430	6 430
Gouvernement du Québec advance	16 128	16 128

Credit risk

The Société is exposed to a credit risk linked to reimbursements of investments in debentures. Consequently, during the year, it performs an ongoing valuation and, where necessary, posts a provision for doubtful debts. These assets are presented at book value in the balance sheet.

The Société is exposed to the economic conditions affecting the sectors in which it exercises its activities. Their total portfolio value is distributed among the following three sectors:

Food processing	68.8%
Food distribution	13.3%
Agricultural production	17.9%

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

29. FINANCIAL INSTRUMENTS (cont'd)**Interest rate risk**

The Société is exposed to an interest rate risk linked to market fluctuations, which may impact cash flows generated by an increase in the contribution to interest payments.

30. COMPARATIVE FIGURES

Certain figures from previous fiscal years were reclassified for consistency with this year.

31. FORESTRY-SECTOR INFORMATION

The Financière agricole is mandated by the Ministère des Ressources naturelles, de la Faune et des Parcs to administer operations related to forestry-sector financing. Revenue, expenditures, assets and liabilities related to these operations are included in the Société's financial statement and detail as follows:

	2004	2003
Revenue		
Gouvernement du Québec contribution	1 677	1 679
Other	153	177
	<u>1 830</u>	<u>1 856</u>
Expenditure		
Contribution to the Farm and Forestry Loan Insurance Fund	215	201
Contribution to interest payments	335	423
Administration fees	1 217	1 142
Other	63	90
	<u>1 830</u>	<u>1 856</u>
Assets		
Current assets	568	871
Gouvernement du Québec receivable	448	287
Loans	1 502	1 922
Fixed assets	66	75
	<u>2 584</u>	<u>3 155</u>
Liabilities		
Current liabilities	2 154	2 848
Deferred Government assistance	66	75
Provision for sick leave	364	232
	<u>2 584</u>	<u>3 155</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

32. CONTINUITY BY FARM INCOME STABILIZATION INSURANCE FUND INSURABLE PRODUCT

<u>Insurable product</u>	Balance (deficit) as at March 31, 2003	<u>Contributions</u>	<u>Allowances</u>	Interest and other expenses	Balance (deficit) as at March 31, 2004
Feeder calves	2 243	83 802	100 881	696	(14 140)
Slaughter cattle and steers	(370)	31 085	34 632	290	(3 627)
Veal calves	10 154	24 286	32 567	495	2 368
Grain-fed calves	(4 507)	22 038	15 059	105	2 577
Piglets	(51 185)	88 764	91 542	(123)	(54 086)
Hogs	(35 499)	66 282	122 858	(1 788)	(93 863)
Lambs	(2 413)	21 121	19 579	167	(704)
Potatoes	9 082		(5)	220	9 307
Grain, grain-corn and soybeans	(215 248)	143 768	142 658	(5 061)	(219 199)
Apples	(3 867)	2 938	57	(38)	(1 024)
	<u>(291 610)</u>	<u>484 084</u>	<u>559 828</u>	<u>(5 037)</u>	<u>(372 391)</u>

<u>Insurable product</u>	<u>Current insurance year</u>	<u>Period covered by insurance year</u>
Feeder calves	2003	January 1, 2003 to December 31, 2003
Slaughter cattle and steers	2003	January 1, 2003 to December 31, 2003
Veal calves	2003	January 1, 2003 to December 31, 2003
Grain-fed calves	2003	January 1, 2003 to December 31, 2003
Piglets	2003	April 1, 2003 to March 31, 2004
Hogs	2003	April 1, 2003 to March 31, 2004
Lambs	2003	January 1, 2003 to December 31, 2003
Potatoes	2002	August 1, 2002 to July 31, 2003
Grain	2002	August 1, 2002 to July 31, 2003
Grain-corn	2002	October 1, 2002 to September 30, 2003
Soybeans	2002	September 1, 2002 to August 31, 2003
Canola	2002	August 15, 2002 to August 14, 2003
Apples	2002	August 15, 2002 to August 14, 2003

33. CONTINUITY BY CROP INSURANCE FUND SYSTEM

	<u>Insurance year 2003</u>				
	Balance as at March 31, 2003	<u>Contributions</u>	<u>Allowances</u>	Interest and loss on short-term investments	Balance as at March 31, 2004
Group system	46 548	16 188	14 863	865	48 738
Individual system	13 129	30 767	26 085	(1 267)	16 544
	<u>59 677</u>	<u>46 955</u>	<u>40 948</u>	<u>(402)</u>	<u>65 282</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of La Financière agricole du Québec and the funds it administers were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. The financial information contained in the rest of the annual report concurs with that shown in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

La Financière agricole du Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it, and with various Canada-Québec agreements. At least every five years, it must carry out an actuarial analysis of its operations and collate any information useful for setting contribution rates for the insurance or farm income protection program.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the financial statements of La Financière agricole du Québec and the funds it administers in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the finance committee to discuss any matter related to the audit.

On behalf of La Financière agricole du Québec and the funds it administers,
Norman Johnston, Acting President and Chief Executive Officer
Sylvie Grondin, CGA, Vice-President, Corporate Affairs

Québec, May 21, 2004

LA FINANCIÈRE AGRICOLE DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the consolidated balance sheet of La Financière agricole du Québec, the Farm Income Stabilization Insurance Fund, the Crop Insurance Fund, and the Farm Income Stabilization Account as at March 31, 2004 and the consolidated statements of revenue and expenditure and surplus and cash flows of La Financière agricole du Québec, the statement of revenue and expenditure and surplus of the Crop Insurance Fund, and the statement of revenue and expenditure and deficit of the Farm Income Stabilization Insurance Fund and changes in the balance of the Farm Income Stabilization Account for the year then ended. These financial statements are the responsibility of management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of La Financière agricole du Québec and the funds it administers as at March 31, 2004 and the results of their operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 21, 2004

LOTO-QUÉBEC
(R.S.Q., c. S-13.1)

CONSOLIDATED STATEMENT OF INCOME
for the year ended March 31, 2004
(in thousands of dollars)

	2004	2003
REVENUE	3 760 743	3 749 410
COST OF SALES (Note 3)	1 463 463	1 458 654
GROSS PROFIT	2 297 280	2 290 756
OPERATING EXPENSES		
Operating expenditures	603 052	618 149
Depreciation of fixed assets	80 150	77 440
Amortization of patents		309
Amortization of deferred charges	2 183	2 359
Interest – net (Note 4)	12 177	7 856
	697 562	706 113
INCOME BEFORE THE FOLLOWING ITEMS	1 599 718	1 584 643
Special payments (Note 5)	28 165	26 873
Goods and Services Tax	49 553	52 093
Québec Sales Tax	56 750	59 603
	134 468	138 569
NET INCOME	1 465 250	1 446 074

SEGMENTED INFORMATION (Note 21)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the year ended March 31, 2004
(in thousands of dollars)

	2004	2003
BALANCE AT BEGINNING OF YEAR	234 565	192 796
Net income	1 465 250	1 446 074
	1 699 815	1 638 870
Dividends	(1 493 000)	(1 311 000)
Fonds d'aide à l'action communautaire autonome (Note 6)	(13 559)	(14 575)
Fonds d'aide à l'action humanitaire internationale (Note 6)	(2 712)	(2 915)
Contributions to the Québec Government (Note 7)	(55 997)	(75 815)
	(1 565 268)	(1 404 305)
BALANCE AT END OF YEAR	134 547	234 565

LOTO-QUÉBEC

CONSOLIDATED BALANCE SHEET
as at March 31, 2004
(in thousands of dollars)

	2004	2003
ASSETS		
Current		
Cash on hand – Casinos	52 586	46 854
Cash on hand	14 001	15 943
Temporary investment		14 956
Accounts receivable (Note 8)	71 085	75 674
Inventory (Note 9)	14 312	15 811
Prepaid expenses	21 629	30 987
	<u>173 613</u>	<u>200 225</u>
Investments	39 711	40 598
Fixed assets (Note 10)	793 546	745 930
Deferred charges, amortized (Note 11)	3 531	3 078
	<u>1 010 401</u>	<u>989 831</u>
LIABILITIES		
Current		
Bank loans (Note 12)	602 787	519 176
Prizes payable	69 313	53 817
Accounts payable and accrued liabilities (Note 13)	175 349	143 389
Provisions related to prizes (Note 14)	9 807	18 574
Deferred income	18 428	20 140
	<u>875 684</u>	<u>755 096</u>
SHAREHOLDER'S EQUITY		
Capital-stock authorized, issued and fully paid:		
1 700 shares with a par value of \$100 each	170	170
Retained earnings	134 547	234 565
	<u>134 717</u>	<u>234 735</u>
	<u>1 010 401</u>	<u>989 831</u>

COMMITMENTS (Note 15)

On behalf of the Board of Directors,
Alain Cousineau, Chairman of the Board
Robert Crevier, Member of the Board

LOTO-QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Net income	1 465 250	1 446 074
Items not affecting cash flows:		
Depreciation of fixed assets	80 150	77 440
Amortization of patents		309
Amortization of deferred charges	2 183	2 359
Net contribution to the Manoir Richelieu LP	4 869	4 227
Share of the earnings of Nter Technologies, s.e.c.		(520)
Changes in assets and liabilities related to operations (Note 17)	<u>27 319</u>	<u>(24 235)</u>
Operating activity cash flows	<u>1 579 771</u>	<u>1 505 654</u>
FINANCING ACTIVITIES		
Dividends paid	(1 457 000)	(1 367 000)
Bank loans	83 611	132 613
Contributions to the Québec Government	(55 997)	(78 531)
Fonds d'aide à l'action communautaire autonome	(13 559)	(14 575)
Fonds d'aide à l'action humanitaire internationale	<u>(2 712)</u>	<u>(2 915)</u>
Financing activity cash flows	<u>(1 445 657)</u>	<u>(1 330 408)</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(148 852)	(189 737)
Deposits for the acquisition of fixed assets	9 990	17 055
Acquisition of investments (Note 2)	(237)	36
Distribution to the Manoir Richelieu LP	(4 307)	(5 144)
Distribution of the Manoir Richelieu LP	762	487
Acquisition of deferred charges	<u>(2 636)</u>	<u>(3)</u>
Investment activity cash flows	<u>(145 280)</u>	<u>(177 306)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(11 166)</u>	<u>(2 060)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>77 753</u>	<u>79 813</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 17)	<u><u>66 587</u></u>	<u><u>77 753</u></u>

LOTO-QUÉBEC**NOTES TO FINANCIAL STATEMENTS**

March 31, 2004

(in thousands of dollars)

1. AUTHORITY AND OBJECTIVES

The Société des loteries du Québec (the Corporation), also designated as Loto-Québec, is a joint-stock corporation whose shares form part of the public domain and are allotted to the Minister of Finance. Under its act of incorporation (R.S.Q., Chapter S-13.1), its functions are to conduct and administer lottery schemes and to operate businesses which are incidental to the operation of a State casino. It may also offer, for consideration, consulting and implementation services in matters within its competence. By virtue of the Income Tax Act (R.S.C. (1985), Ch. 1 (5th supplement)) and the Taxation Act (R.S.Q., Ch. I-3), the Corporation is exempt from paying income tax.

2. ACCOUNTING POLICIES

The consolidated financial statements of Loto-Québec have been prepared by management in accordance with Canadian generally accepted accounting practices. These statements comprise amounts based on best judgement and estimates.

Consolidation

The consolidated financial statements include the accounts of Loto-Québec and its wholly owned subsidiaries:

- Lotim Inc.
- La Société des casinos du Québec Inc.
- Casiloc Inc.
- La Société des loteries vidéo du Québec Inc.
- Resto-Casino Inc.
- Ingenio, filiale de Loto-Québec Inc.
- La Société des bingos du Québec Inc.
- World Gaming Consultants Inc.
- 9059-3849 Québec Inc.
- Casino Mundial Inc.
- Nter Technologies LP
- Nter Technologies Inc.

The investments in the Manoir Richelieu Limited Partnership and the 9064-1812 Québec Inc. General Partnership are entered at their consolidated value.

During the fiscal year ended March 31, 2003, investments in Nter Technologies Inc. and in Nter Technologies LP were entered at their consolidated value. In October 2003, the Corporation acquired 50 Category A common shares of Nter Technologies Inc. and 50 000 Category A shares of Nter Technologies LP for a payment of 7 879 000, bringing its share in these entities to 100%.

Net asset and liability items acquired are as follows:

Cash on hand	7 642
Fixed assets	732
Asset and liability items related to operations	(495)
Total acquisition cost	<u>7 879</u>

The amount of cash paid for the acquisition (\$7 879 000), less cash acquired (\$7 642 000) equals \$237 000.

LOTO-QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2004

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Revenue***Lotteries*

Gross revenue from the sale of lottery tickets and bingo cards is recorded on the date of the draw, with the exception of revenue from instant lottery ticket sales, which is entered at the time of sale.

With the exception of instant lotteries, lottery tickets sold as at March 31 for draws subsequent to that date are treated as deferred income. Discounts to retailers on these sales are carried as prepaid expenses.

Casinos and Video Lotteries

Revenue from the operation of these activity sectors corresponds to the difference between wagers and prizes awarded.

Multimedia

Revenues represent royalties based on a certain percentage of the total of the CD-ROM/lottery ticket retail price. These revenues are recorded when the printer delivers the CD-ROM/lottery tickets to the lottery corporations.

Cost of Sales*Lotteries and Bingos*

Prizes awarded from ticket sales for bingo and certain lottery products are based on a theoretical sales rate.

In addition to lottery prizes in cash or merchandise, Loto-Québec also awards free tickets. The value ascribed to these prizes is equal to the selling price and is included with sales as revenue and with prizes as expenditure.

Casinos

These amounts represent the promotional cash rebates issued to casino customers.

Pension plans

Defined contribution plan accounting is applied to inter-company governmental defined benefit plans, given that Loto-Québec does not have adequate information to apply defined benefit plan accounting practices.

Inventory*Lotteries and Video Lotteries*

Inventories are valued at the lower of average cost and replacement value.

Restaurants

Inventories are valued at the lower of cost and net realizable value. Cost is estimated as follows:

Food and beverages
Hotel and kitchen equipment

average cost
base stock

LOTO-QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Temporary investments**

Temporary investments are entered at the lower of cost and sale value.

Fixed assets

Fixed assets are presented at acquisition cost and, with the exception of works of art, are depreciated according to their estimated useful life based on the following methods and durations:

	<u>Method</u>	<u>Duration</u>
Buildings	Straight-line	2% to 6 $\frac{2}{3}$ %
	compound interest at 5%	40 years
Parking lot landscaping	Straight-line	6 $\frac{2}{3}$ %
	compound interest at 5%	40 years
Rented parking lot landscaping	Straight-line	2.86% and 6 $\frac{2}{3}$ %
Interior design	Straight-line	10% and 14.29%
	compound interest at 5%	40 years
Exterior landscaping	Straight-line	10% and 14.29%
	compound interest at 5%	40 years
Leasehold improvements	Straight-line	10% to 20%
Office furniture	Straight-line	10% and 20%
Rolling stock	Straight-line	5% and 30%
Equipment	Straight-line	10% to 50%

Deferred charges

Start-up costs related to the Resort Complex and expansion of the Casino du Lac-Leamy are amortized using the straight-line method over a three-year period.

Financial compensation equivalent to one year's commission is paid to each operator participating in the voluntary video lottery terminal withdrawal program. This compensation is deferred and amortized using the straight-line method over a five-year period.

Cash and cash equivalents

The policy of the Corporation is to present, as cash and cash equivalents, the Casinos' cash on hand, bank balances and temporary investments readily convertible into a known cash amount whose value is not likely to change significantly.

3. COST OF SALES

	<u>2004</u>	<u>2003</u>
Lotteries		
Prizes awarded	962 692	953 225
Commissions to retailers	123 595	125 858
Printing of tickets	35 862	33 329
Amounts carried forward	<u>1 122 149</u>	<u>1 112 412</u>

LOTO-QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2004

(in thousands of dollars)

3. COST OF SALES (cont'd)

	2004	2003
Amounts brought forward	1 122 149	1 112 412
Casinos, Restaurants, Lodging		
Promotional allowances	19 577	18 737
Restaurants	24 207	26 577
	43 784	45 314
Video Lotteries		
Commissions to retailers	276 842	280 007
Printing	1 132	1 110
	277 974	281 117
Bingo		
Prizes awarded	16 734	17 036
Commissions to operators	2 091	2 112
Printing of cards	731	663
	19 556	19 811
	1 463 463	1 458 654

4. INTEREST - NET

	2004	2003
Interest on bank loans	13 112	8 652
Interest on term deposits	(935)	(796)
	12 177	7 856

5. SPECIAL PAYMENTS

	2004	2003
Compensation to the Government of Canada	14 247	14 000
Net contribution to the Manoir Richelieu LP	4 869	4 227
Special commissions to non-profit organizations	842	807
Compensation to participating non-profit organizations	7 386	7 519
Compensation to non-participating non-profit organizations	821	840
Share of the results of Nter Technologies, s.e.c.		(520)
	28 165	26 873

Compensation to the Government of Canada

Under an agreement reached between the provincial governments and the Government of Canada concerning its withdrawal from the administration of lotteries, the provinces pay the federal government the equivalent of \$24 million in 1979 dollars every year. For the year ended March 31, 2004, this amounted to \$59.4 million (2003: \$57.8 million).

The Québec Government's share is payable by the Corporation in accordance with an agreement between the provinces and regional lottery corporations.

LOTO-QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

5. SPECIAL PAYMENTS (cont'd)**Net contribution to the Manoir Richelieu Limited Partnership**

Under the terms of the guarantee agreement and in accordance with the distribution methods specified in the partnership agreement, the net contribution represents the minimum share of liquidities generated by the operations of the Casino de Charlevoix that is to be paid to the partners, taking into account Loto-Québec's share in the results generated by the Manoir Richelieu.

Special commissions to non-profit organizations (NPOs)

Further to a decision by the shareholder, a commission equal to the discount allotted to retailers is paid to non-profit organizations selling lottery tickets through the LOTOMATIQUE subscription system.

Compensations to non-profit organization (NPOs)*Participating NPOs*

The Société des bingos du Québec Inc. allots charitable or religious organizations that hold a bingo license an amount equal to the higher of 36.4% of bingo ticket sales less the value of prizes paid to game winners, or 50% of net income generated by bingo games, not counting compensation to non-participating NPOs.

Non-Participating NPOs

The Société des bingos du Québec Inc. allots an amount equal to 5.45% of total ticket sales of the LE GRAND TOUR game (less the value of prizes awarded to winners of this game) to charitable or religious organizations that hold a bingo license but do not participate in the Corporation's bingo games.

**6. FONDS D'AIDE À L'ACTION COMMUNAUTAIRE AUTONOME
AND FONDS À L'ACTION HUMANITAIRE INTERNATIONALE**

Under its act of incorporation, each year, the Corporation pays into the Fonds d'aide à l'action communautaire autonome and the Fonds à l'action humanitaire internationale sums equivalent to 5% and 1% respectively of net income earned during the previous fiscal year through the operation of the State-run casinos and the businesses which are incidental to them.

7. CONTRIBUTIONS TO THE QUÉBEC GOVERNMENT

	2004	2003
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)	5 500	5 250
Ministère de la Santé et des Services sociaux	47 000	47 000
Ministère de la Sécurité publique	3 497	3 000
Ministère des Affaires municipales		300
Ministère des Finances		20 265
	<u>55 997</u>	<u>75 815</u>

8. ACCOUNTS RECEIVABLE

	2004	2003
Wholesalers	28 654	25 805
Retailers	27 967	27 440
Miscellaneous	14 464	22 429
	<u>71 085</u>	<u>75 674</u>

LOTO-QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2004

(in thousands of dollars)

9. INVENTORY

	2004	2003
Lotteries		
Modules – Game terminals	119	
Video lotteries		
Modules – Video lottery terminals	5 161	7 133
Restaurants		
Food and beverages	5 663	5 314
Kitchen and hotel equipment	3 369	3 364
	9 032	8 678
	14 312	15 811

10. FIXED ASSETS

	2004			2003
	Cost	Depreciation accumulated	Net	Net
Land	32 105		32 105	32 105
Buildings	286 508	71 436	215 072	221 256
Parking lot landscaping	127 871	48 363	79 508	83 285
Rented parking lot landscaping	5 271	2 220	3 051	3 327
Interior design	177 845	78 833	99 012	100 055
Exterior landscaping	29 870	16 865	13 005	15 169
Leasehold improvements	33 563	21 378	12 185	14 377
Office furniture	27 763	15 692	12 071	13 154
Rolling stock	2 937	954	1 983	1 989
Equipment	534 915	270 538	264 377	168 121
Art works	4 220		4 220	3 854
Work in progress	56 957		56 957	89 238
	1 319 825	526 279	793 546	745 930

Work in progress represents the computer projects in development in the amount of \$37.0 million (2003: \$18.3 million) and equipment in the amount of \$20.0 million (2003: \$70.9 million).

Work terminated at a cost of \$2.5 million, entirely amortized as at March 31, 2004, is included in equipment.

11. DEFERRED CHARGES AMORTIZED

	2004	2003
Start-up costs	1 028	3 078
Financial compensation	2 503	
	3 531	3 078

LOTO-QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2004

(in thousands of dollars)

12. BANK LOANS

Demand bank loans are authorized by the Québec Government for a maximum amount of \$700 million bearing interest at market rates.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2004	2003
Suppliers and accrued liabilities	121 245	135 544
Dividends	36 000	
Manoir Richelieu LP	6 923	4 239
Québec Sales Tax	6 063	512
Goods and Services Tax	5 118	278
Nter Technologies,s.e.c.		2 816
	<u>175 349</u>	<u>143 389</u>

14. PROVISIONS RELATED TO PRIZES

	2004	2003
Provision for unclaimed prizes	5 372	7 243
Provision for prize structure variances	4 435	11 331
	<u>9 807</u>	<u>18 574</u>

The provision for unclaimed prizes is made up of unclaimed prizes from all Loto-Québec products, excluding Canada-wide games. This amount is used for the payment of bonus and retailer prizes.

The provision for prize structure variances in bingo and certain lottery products is made up of all differences between the theoretical amount of prizes to be awarded under the prize structure and the actual amount payable. Monies from this provision are used principally to offset occasional shortfalls arising from prize structures that exceed the forecast amount. With the approval of the Board of Directors, this provision may also be used for bonus prizes or for discharging any claims associated with the games, or it may be included in the results.

15. COMMITMENTS**Leases**

Under an agreement expiring June 2008 with a five-year option to renew, the Corporation is committed to paying a minimum of \$41.2 million (2003: \$2.4 million) for the rental of the premises occupied by its head office in a building held in joint tenancy with SITQ National Inc., representing a consolidated commitment of \$20.6 million (2003: \$1.2 million). In addition, the Corporation is committed, under long-term leases expiring on various dates up until 2035, to renting space for administrative offices. In certain cases, these leases have a two-to five-year renewal option.

The minimum rental payments (in thousands of dollars) are as follows:

2005	15 143
2006	14 140
2007	13 480
2008	12 409
2009	7 892
2010 and subsequent	<u>11 535</u>
	<u>74 599</u>

LOTO-QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2004

(in thousands of dollars)

15. COMMITMENTS (cont'd)**Contributions to the Québec Government***Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)*

In view of the decision to terminate the activities of fairground casinos, the Government authorized Loto-Québec to give its commitment to the MAPAQ to pay a sum of \$5.5 million each calendar year into a designated fund for five years until 2008. Upon expiry, the agreement will be renewable by mutual consent of the parties.

Ministère de la Santé et des Services sociaux

With the authorization of the Québec Government, the Corporation has given its commitment to the Ministère de la Santé et des Services sociaux to pay a total of \$17 million annually into a designated fund to finance prevention activities, treatment services, research programs and information campaigns to help compulsive gamblers.

Moreover, the Corporation has also given its commitment to the Ministère to pay \$30 million annually into another designated fund to finance support and assistance services for seniors with restricted mobility living at home or at residential centres.

The Corporation is unable to assess the total amount of these commitments.

Ministère de la Sécurité publique

With the authorization of the Québec Government, the Corporation has given its commitment to the Ministère de la Sécurité publique to pay an annual sum of \$3 million into a designated fund to finance a series of rigorous control activities and measures to be implemented by the Régie des alcools, des courses et des jeux related, in particular, to overseeing access to video lottery terminals. The Corporation is unable to assess the total amount of this commitment at this time.

Moreover, the Corporation has also given its commitment to the Ministère to pay approximately \$0.5 million annually, over a period of five years ending September 30, 2007, into a designated fund to finance additional resources to help reduce the time required to certify the Corporation's gaming equipment.

16. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their accounting value due to their matching expiry date.

17. CONSOLIDATED CASH FLOWS

	2004	2003
Cash and Cash Equivalents		
Cash on hand – Casinos	52 586	46 854
Cash on hand	14 001	15 943
Temporary investments		14 956
	<u>66 587</u>	<u>77 753</u>
Changes to Assets and Liabilities Related to Operations		
Accounts receivable	4 589	(8 007)
Inventory	1 499	(7 037)
Prepaid expenses	(632)	(3 580)
Prizes payable	15 496	2 799
Accounts payable and accrued liabilities	16 846	5 593
Provisions related to prizes	(8 767)	(18 987)
Deferred income	(1 712)	4 984
	<u>27 319</u>	<u>(24 235)</u>

LOTO-QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2004

(in thousands of dollars)

17. CONSOLIDATED CASH FLOWS (cont'd)

	<u>2004</u>	<u>2003</u>
Supplementary Information		
Interest paid	<u>8 964</u>	<u>10 694</u>
Prepaid expenses transferred to fixed assets	<u>9 990</u>	<u>17 055</u>

18. PENSION PLANS

Employees of the parent corporation, the Société des loteries vidéo du Québec Inc., the Société des bingos du Québec Inc., and Ingenio, filiale de Loto-Québec Inc., participate in the Régime de retraite des employés du gouvernement et des organismes publics (RREGOP), the Régime de retraite des fonctionnaires (RRF) and the Régime de retraite du personnel d'encadrement (RRPE). These are benefit-based pension plans and contain guarantees upon retirement or death. Contributions charged to consolidated earnings for the fiscal year for these plans total \$2.1 million (2003: \$1.8 million). The employer's obligations towards these government plans are limited to its contribution as an employer.

The employees of the Société des casinos du Québec Inc. and Resto-Casino Inc. participate in a defined contribution plan. Employees of Nter Technologies LP participate in a group Registered Retirement Savings Plan. These defined contribution plans are voluntary and provide employees with immediate payment of the employer's contribution, which is equal to the employee's contribution within the limits prescribed by the plans. Contributions charged to consolidated earnings for the fiscal year under these plans total \$8.8 million (2003: \$8.1 million).

19. RELATED PARTY TRANSACTIONS

Over the course of fiscal 2003, the Corporation engaged the consulting and management services of a limited partnership company, jointly owned by Loto-Québec and a third party, for a total of \$36.0 million.

In addition to the related party transactions already outlined and accounted for, Loto-Québec is related to all Québec Government departments and special funds, as well as to all agencies and enterprises controlled directly or indirectly by the Government, or subject either to joint control or to significant mutual influence on the part of the Government. The Corporation has not concluded any business transactions with these related parties other than within the normal course of its activities and on regular business terms. These transactions are not disclosed separately in the financial statements.

20. COMPARATIVE FIGURES

Certain comparative figures posted for the year 2003 have been reclassified in order to conform to the presentation adopted in 2004.

LOTO-QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

21. SEGMENTED INFORMATION

Activity Sectors	2004							Consolidated Figures
	Lotteries	Casinos Restau- rants Lodging	Video Lotteries	Bingo	Multi- media	Corporate	Inter- Company Elimin- ation	
Revenue								
Games	1 812 785	728 906	1 128 847	36 929	642		(208)	3 707 901
Restaurants		79 617					(39 222)	40 395
Lodging		12 447						12 447
	<u>1 812 785</u>	<u>820 970</u>	<u>1 128 847</u>	<u>36 929</u>	<u>642</u>		<u>(39 430)</u>	<u>3 760 743</u>
Cost of Sales								
Games	1 122 357	19 577	277 974	19 556			(208)	1 439 256
Restaurants		24 207						24 207
	<u>1 122 357</u>	<u>43 784</u>	<u>277 974</u>	<u>19 556</u>			<u>(208)</u>	<u>1 463 463</u>
Gross Profit	<u>690 428</u>	<u>777 186</u>	<u>850 873</u>	<u>17 373</u>	<u>642</u>		<u>(39 222)</u>	<u>2 297 280</u>
Operating Expenses								
Operating expenses ⁽¹⁾⁽²⁾	125 953	435 556	36 094	5 580	5 905	33 186	(39 222)	603 052
Depreciation of fixed assets	8 034	40 983	19 687	497	106	10 843	0	80 150
Amortization of patents							0	
Amortization of deferred charges		2 050	133				0	2 183
Interest – Net		(840)	(62)	(10)	(9)	13 098	0	12 177
	<u>133 987</u>	<u>477 749</u>	<u>55 852</u>	<u>6 067</u>	<u>6 002</u>	<u>57 127</u>	<u>(39 222)</u>	<u>697 562</u>
Income (Loss) Before the Following Items	<u>556 441</u>	<u>299 437</u>	<u>795 021</u>	<u>11 306</u>	<u>(5 360)</u>	<u>(57 127)</u>		<u>1 599 718</u>
Special payments ⁽¹⁾	15 089	4 869		8 207				28 165
Goods and Services Tax ⁽¹⁾	17 371	9 598	22 568	471		(455)		49 553
Québec Sales Tax ⁽¹⁾	19 855	11 003	25 874	540		(522)		56 750
	<u>52 315</u>	<u>25 470</u>	<u>48 442</u>	<u>9 218</u>		<u>(977)</u>		<u>134 468</u>
Net Income (Net Loss)	<u>504 126</u>	<u>273 967</u>	<u>746 579</u>	<u>2 088</u>	<u>(5 360)</u>	<u>(56 150)</u>		<u>1 465 250</u>

(1) Indirect costs were paid by the Corporate sector and are charged back to other activity sectors in accordance with the extent of their use. An amount of \$20.3 million was charged towards the Lottery sector's results, an amount of \$52.2 million was charged to the Casino sector's results, an amount of \$50.4 million was charged to those of the Video Lottery sector, and \$2.1 million to the Bingo sector.

(2) Support provided to participating NPOs was increased through a compensatory payment equivalent to the Bingo sector's net profit. An amount of \$2.1 million is charged back to the Corporate sector.

LOTO-QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

21. SEGMENTED INFORMATION (cont'd)

Activity Sectors	2003							Consolidated Figures
	Lotteries	Casinos Restau- rants Lodging	Video Lotteries	Bingo	Multi- media	Corporate	Inter- Company Elimin- ation	
Revenue								
Games	1 834 423	747 463	1 076 943	37 605	927		(504)	3 696 857
Restaurants		80 714					(40 662)	40 052
Lodging		12 501						12 501
	<u>1 834 423</u>	<u>840 678</u>	<u>1 076 943</u>	<u>37 605</u>	<u>927</u>		<u>(41 166)</u>	<u>3 749 410</u>
Cost of Sales								
Games	1 112 916	18 737	281 117	19 811			(504)	1 432 077
Restaurants		26 577						26 577
	<u>1 112 916</u>	<u>45 314</u>	<u>281 117</u>	<u>19 811</u>			<u>(504)</u>	<u>1 458 654</u>
Gross Profit	<u>721 507</u>	<u>795 364</u>	<u>795 826</u>	<u>17 794</u>	<u>927</u>		<u>(40 662)</u>	<u>2 290 756</u>
Operating Expenses								
Operating expenditures (1)(2)	131 949	439 618	40 350	5 416	5 133	36 345	(40 662)	618 149
Depreciation of fixed assets	18 271	45 582	2 600	510	129	10 348		77 440
Amortization of patents					309			309
Amortization of deferred charges		2 359						2 359
Interest – net		(625)	(40)	(9)	(8)	8 538		7 856
	<u>150 220</u>	<u>486 934</u>	<u>42 910</u>	<u>5 917</u>	<u>5 563</u>	<u>55 231</u>	<u>(40 662)</u>	<u>706 113</u>
Income (Loss) Before the Following Items	<u>571 287</u>	<u>308 430</u>	<u>752 916</u>	<u>11 877</u>	<u>(4 636)</u>	<u>(55 231)</u>		<u>1 584 643</u>
Special payments (1)	14 807	4 227		8 359		(520)		26 873
Goods and Services Tax (1)	18 371	10 654	21 950	452		666		52 093
Québec Sales Tax (1)	<u>20 944</u>	<u>12 214</u>	<u>25 164</u>	<u>518</u>		<u>763</u>		<u>59 603</u>
	<u>54 122</u>	<u>27 095</u>	<u>47 114</u>	<u>9 329</u>		<u>909</u>		<u>138 569</u>
Net Income								
(Net Loss)	<u>517 165</u>	<u>281 335</u>	<u>705 802</u>	<u>2 548</u>	<u>(4 636)</u>	<u>(56 140)</u>		<u>1 446 074</u>

(1) Indirect costs were paid by the Corporate sector and are charged back to other activity sectors in accordance with the extent of their use. An amount of \$20.0 million was charged towards the Lottery sector's results, an amount of \$53.8 million towards the Casino sector's results, an amount of \$49.6 million to those of the Video Lottery sector, and \$2.1 million to the Bingo sector.

(2) Support provided to participating NPOs was increased through a compensatory payment equivalent to the Bingo sector's net profit. An amount of \$2.5 million is charged back to the Corporate sector.

LOTO-QUÉBEC**MANAGEMENT REPORT**

The Board of Directors is responsible for the consolidated financial statements drawn up for the shareholder. It delegates responsibility for preparing them to senior management, while the Audit Committee reviews them.

Management has a system of internal controls to ensure that the financial statements are reliable, and Internal Audit monitors the system to ensure it works properly.

The consolidated financial statements are prepared according to Canadian generally accepted accounting principles which, in certain cases, require judgements on the part of management. The financial information contained within the rest of the Annual Report corresponds to the information provided in the financial statements.

By law, the Auditor General of Québec audits the books and accounts of Loto-Québec. The Audit Committee and the Auditor General meet with management to discuss questions pertaining to the audit and to the consolidated financial statements. Audit Committee members have no link to Loto-Québec other than as directors.

Upon the recommendation of the Audit Committee, the Board of Directors has approved the consolidated financial statements of Loto-Québec for the fiscal year ended March 31, 2004.

Alain Cousineau
Chairman, President and
Chief Executive Officer

Gérald Houle, CMA
Corporate Vice-President,
Finance and Administration

Montréal, May 20, 2004

AUDITOR'S REPORT

To the Minister of Finance

I have audited the consolidated balance sheet of Loto-Québec as at March 31, 2004 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Loto-Québec's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. These standards require that I plan and perform an audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present, in all material aspects, the financial position of Loto-Québec as at March 31, 2004, and the results of its operations and cash flows for the year ended in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., Chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Interim Auditor General

Québec City, May 20, 2004

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL
(R.S.Q., c. M-44)

INCOME AND CHANGES IN FUND BALANCES
for the year ended March 31, 2004

	General Fund	Commercial Activities Fund
REVENUE		
Gouvernement du Québec subsidies		
Operations	\$7 240 000	
Specific projects	40 430	
Federal subsidies for specific projects	508 392	
Donations of works of art	2 226 503	
Donations – Fundraising campaign (Note 5)		
Financial sponsorship (Note 6)	389 390	
Investment income (Note 7)	51 482	
Sales		\$553 337
Space rental		154 947
Exhibitions on loan	113 351	
Royalties – food services		55 355
Admission fees	193 070	
Other revenue	155 702	10 429
	<u>10 918 320</u>	<u>774 068</u>
EXPENDITURE		
Salaries and other remuneration	4 499 248	173 094
Professional, administrative and other services	1 885 048	64 299
Transportation and communications	760 505	15 478
Materials and supplies	609 977	301 562
Rentals	861 383	24 350
Maintenance and repairs	193 473	5 861
Interest charges and cost of borrowing	10 355	
Acquisition of works of art and archives (Note 8)		
Donations – works of art	2 226 503	
Purchases – works of art	276 030	
Amortization – works of art		
Depreciation of fixed assets		
Fundraising expenses (Note 5)		
	<u>11 322 522</u>	<u>584 644</u>
EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE	(404 202)	189 424
FUND BALANCES, BEGINNING OF YEAR (Note 4)	60 743	275 000
Interfund contributions (Note 9)	359 468	(189 424)
FUND BALANCES, END OF YEAR	<u>\$16 009</u>	<u>\$275 000</u>

Fixed Assets Fund	Fundraising Campaign Fund	Lavalin Collection Fund	Endowment Fund for the Acquisition of Works of Art	Total 2004	Total 2003 (Note 4)
\$702 075	\$37 440			\$7 979 515	\$8 428 401
				40 430	271 549
				508 392	570 333
				2 226 503	2 049 435
	317 384			317 384	106 438
				389 390	83 758
				51 482	41 246
				553 337	616 831
				154 947	132 743
				113 351	229 766
				55 355	55 181
				193 070	260 283
				166 131	99 854
<u>702 075</u>	<u>354 824</u>			<u>12 749 287</u>	<u>12 945 818</u>
				4 672 342	4 601 270
				1 949 347	1 796 052
				775 983	751 364
				911 539	916 844
				885 733	858 616
				199 334	206 024
553 758	37 440			601 553	623 064
				2 226 503	2 049 435
				276 030	263 830
					552 060
202 604				202 604	213 194
	38 766			38 766	117 576
<u>756 362</u>	<u>76 206</u>			<u>12 739 734</u>	<u>12 949 329</u>
(54 287)	278 618			9 553	(3 511)
(500 910)			\$1 412 846	1 247 679	1 251 190
<u>108 574</u>	<u>(278 618)</u>				
<u><u>\$(446 623)</u></u>	<u><u></u></u>	<u><u></u></u>	<u><u>\$1 412 846</u></u>	<u><u>\$1 257 232</u></u>	<u><u>\$1 247 679</u></u>

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

BALANCE SHEET
as at March 31, 2004

	General Fund	Commercial Activities Fund
ASSETS		
Current assets		
Cash on hand	\$541 577	
Short-term investments (Note 10)	7 389	
Accounts receivable	426 066	\$104 548
Accrued interest	17 319	
Interfund receivables, interest-free and no repayment terms	681 716	31 694
Gouvernement du Québec subsidies receivable	178 549	
Other subsidies receivable		
Inventory		158 033
Prepaid expenses	32 906	
	1 885 522	294 275
Gouvernement du Québec subsidies receivable		
Works of art in the Lavalin Collection		
Portfolio investments (Note 10)	754 961	
Fixed assets (Note 11)		
	\$2 640 483	\$294 275
LIABILITIES		
Current liabilities		
Bank advances (Notes 12 and 13)		
Accounts payable and accruals	\$932 768	
Interfund receivables, interest-free and no repayment terms		
Interest payable		
Deferred revenue	23 696	\$19 275
Deferred donations (Note 5)		
Deferred investment income (Note 10)	592 510	
Deferred Gouvernement du Québec subsidies – Specific projects	369 304	
Deferred federal subsidies – Specific projects		
Current portion of long-term debt (Note 14)	1 918 278	19 275
	706 196	
Future fringe benefits (Note 16)		
Long-term debt (Note 14)		
Deferred Gouvernement du Québec subsidies (Note 15)		
	2 624 474	19 275
FUND BALANCES		
External appropriations		275 000
Non-appropriated funds	16 009	
	16 009	275 000
	\$2 640 483	\$294 275

On behalf of the Board of Directors,
Marc DeSerres
Serge Guérin

Fixed Assets Fund	Fundraising Campaign Fund	Lavalin Collection Fund	Endowment Fund for the Acquisition of Works of Art	Total 2004	Total 2003 (Note 4)
			\$416	\$541 993	\$752 361
	\$223 973		121 234	128 623	187 689
				754 587	767 718
				17 319	15 727
\$634 133	79 431			892 113	882 143
					223 000
				158 033	160 355
				32 906	11 022
634 133	303 404		121 650	2 525 574	3 000 015
5 568 169	537 480			6 105 649	6 539 503
			1 826 497	2 581 458	2 431 514
465 810				465 810	460 908
<u>\$6 668 112</u>	<u>\$840 884</u>		<u>\$1 948 147</u>	<u>\$11 678 491</u>	<u>\$12 431 940</u>
\$536 700				\$536 700	\$326 500
				932 768	1 173 612
66 381	\$111 728		\$535 301		
260 841	12 246			273 087	290 376
	112 245			42 971	102 712
				112 245	147 629
				592 510	534 312
				369 304	344 734
					135 667
366 669	67 185			433 854	433 854
1 230 591	303 404		535 301	3 293 439	3 489 396
				706 196	691 070
5 568 169	537 480			6 105 649	6 539 503
315 975				315 975	464 292
<u>7 114 735</u>	<u>840 884</u>		<u>535 301</u>	<u>10 421 259</u>	<u>11 184 261</u>
(446 623)			1 412 846	1 241 223	1 186 936
				16 009	60 743
(446 623)			1 412 846	1 257 232	1 247 679
<u>\$6 668 112</u>	<u>\$840 884</u>		<u>\$1 948 147</u>	<u>\$11 678 491</u>	<u>\$12 431 940</u>

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL**CASH FLOWS**

for the year ended March 31, 2004

	General Fund	Commercial Activities Fund
OPERATING ACTIVITIES		
Excess (deficiency) revenue over expenditure	\$(404 202)	\$189 424
Items not affecting liquid assets:		
Depreciation of fixed assets		
Amortization of works art	(404 202)	189 424
Changes in assets and liabilities related to operations	(129 836)	
Cash flows related to operating activities	(534 038)	189 424
FINANCING ACTIVITIES		
Repayment of long-term debt		
Long-term debt		
Bank advances		
Cash flows related to financing activities		
INVESTMENT ACTIVITIES		
Acquisition of fixed assets		
Acquisition of investments	(35 778)	
Cash flows related to investment activities	(35 778)	
CHANGE IN CASH AND CASH EQUIVALENTS	(569 816)	189 424
Inter-fund contributions (Note 9)	359 468	(189 424)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	751 925	
CASH AND CASH EQUIVALENTS, END OF YEAR	\$541 577	

Cash and cash equivalents include cash on hand.

Fixed Assets Fund	Fundraising Campaign Fund	Lavalin Collection Fund	Endowment Fund for the Acquisition of Works of Art	Total 2004	Total 2003 (Note 4)
\$(54 287)	\$278 618			\$9 553	\$(3 511)
202 604				202 604	213 194
148 317	278 618			212 157	552 060
107 084	67 185		\$55 080	99 513	761 743
255 401	345 803		55 080	311 670	1 057 406
(366 669)	(67 185)			(433 854)	(985 326)
210 200				210 200	254 500
(156 469)	(67 185)			(223 654)	(730 826)
(207 506)			(55 100)	(207 506)	(245 839)
				(90 878)	(789 047)
(207 506)			(55 100)	(298 384)	(1 034 886)
(108 574)	278 618		(20)	(210 368)	(708 306)
108 574	(278 618)				
			436	752 361	1 460 667
			\$416	\$541 993	\$752 361

MUSÉE D'ART CONTEMPORAIN DE MONTRÉALNOTES TO FINANCIAL STATEMENTS
March 31, 2004**1. CONSTITUTION AND PURPOSE**

A legal person within the meaning of the Civil Code, the Musée d'Art contemporain de Montréal was established by the National Museums Act (R.S.Q., c. M-44) to make known, promote and preserve contemporary Québec art and to ensure a place for international contemporary art through acquisitions, exhibitions and other cultural activities.

The Musée d'art contemporain de Montréal has been recognized as a charitable institution within the meaning of the Québec Taxation Act and the Canada Income Tax Act. Consequently, it is eligible for the tax exemption provided for such institutions.

2. PURPOSE OF THE FUNDS

The General Fund accounts for the Musée's current operations.

The Commercial Activities Fund shows the Musée's commercial activities, such as the sale of exhibition catalogues, restaurant and gift shop operations, the production and sale of by-products and rental of space. Under a regulation approved by the Government in September 1994, the Fund balance must not exceed \$275 000 and must be used to repay borrowings or finance the Musée's activities.

The Fixed Assets Fund shows all assets, liabilities, revenue and expenditure related to fixed assets. All amounts recorded in the Fixed Assets Fund are reserved for the acquisition of fixed assets for the Musée and the payment of related costs. The Musée may not acquire, dispose of, mortgage or rent any building without the Government's approval.

The Fundraising Campaign Fund receives donations for the enhancement of the Musée's educational activities, the acquisition of works of art and fixed assets.

The Lavalin Collection Fund accounts for transactions made with the loan authorized to finance the acquisition of works of art in this Collection.

The Endowment Fund for the Acquisition of Works of Art presents resources acquired through endowments. Under a regulation approved by the Government, only investment income generated by this Fund can be used to acquire works of art for the Musée's collection.

3. ACCOUNTING POLICIES

The financial statements of the Musée were prepared by management according to the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Subsidy recording

Subsidies are recorded using the deferral method. Appropriated subsidies are recognized as revenue in the year in which the related expenditure is incurred. Non-appropriated subsidies are recognized as revenue when they are received or are receivable if the amount receivable can be evaluated with reasonable assurance and its receipt is reasonably assured.

Subsidies receivable for fixed assets and their maintenance are recorded in the year the Musée obtained the financing or carried out the work entitling it to these subsidies.

Endowments

Endowments are accounted for as a direct increase in the balance of the Endowment Fund for the Acquisition of Works of Art, whereas investment income is recognized as deferred investment income in the General Fund and accounted for as proceeds when used for the acquisition of works of art.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

3. ACCOUNTING POLICIES (cont'd)

Works of art

Acquisitions of works of art are charged to expenditure of the General Fund.

The value of works of art received as donations during the year is ascertained by experts and, if over \$1 000, must be certified by the Canadian Cultural Property Export Review Board of the Government of Canada. Works of art acquired through donations are recorded in the statement of revenue and expenditure of the General Fund when all attendant conditions have been fulfilled.

Works of art in the Lavalin Collection are recorded at amortized cost. The cost of the Collection was determined jointly by the Ministère de la Culture et des Communications and the trustee in bankruptcy for Lavalin Inc. The works in the Collection are amortized according to the same terms as those respecting repayment of the principal on the long-term debt contracted for them.

Investments

Short-term investments are recorded at the lower of cost and market value. Portfolio investments are recorded at cost. Any lasting decrease in market value is reduced by the investments' book value, where applicable.

Fixed assets

Fixed assets are recorded at acquisition cost and depreciated on a straight-line basis over their estimated service lives, namely:

Storerooms for works of art	10 years
Computer system	3 years
Musée furnishings	10 years
Musée equipment	5 years
Audiovisual equipment	3 years
Gift shop equipment	5 years
Restaurant equipment	5 years
Sculpture garden	10 years

Inventory

Gift shop inventory is valued at the lower of cost and net realizable value. Cost is determined by the first in, first out (FIFO) method.

Contributions in the form of services

The Ministère de la Culture et des Communications provides the Musée with art restoration services free of charge. These services are not shown in the financial statements. The Musée is unable to evaluate these amounts with reasonable assurance.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Musée lacks sufficient information to apply the accounting procedure for defined-benefit plans.

4. CHANGE IN ACCOUNTING POLICY

The financial statements for the fiscal year ended on March 31, 2003 were adjusted to record all of the obligations resulting from the employer contributions to the fringe benefit plans linked to vacation time and sick leave cumulated by Musée employees at fiscal year-end as liabilities. Previously, these contributions were recorded to operations for the fiscal year during which the employees used their holidays.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

4. CHANGE IN ACCOUNTING POLICY (cont'd)

The Gouvernement du Québec awarded a specific subsidy of \$153 549 for financing employer contributions for vacation time and sick leave cumulated by Musée employees.

The retroactive application of these changes increase (decrease) the following items in the financial statements:

General Fund

	2004	2003
Gouvernement du Québec subsidy: specific projects		\$153 549
Salaries and other remunerations	\$3 405	153 549
Excess revenue over expenditure	(3 405)	
Fund balance	(3 405)	
Gouvernement du Québec subsidy receivable	153 549	153 549
Accounts payable and accruals	1 264	55 723
Future fringe benefits	2 141	97 826

5. FONDATION DU MUSÉE

The Fondation du Musée d'Art contemporain de Montréal is a public foundation under section 149.1(6.3) of the Income Tax Act. The Fondation was established as a non-profit organization in 1983 and is headed by an independent board of directors, composed of fifteen (15) members, one of whom is a delegate from the board of directors and another of whom is a manager with the Musée. The foundation's main purpose is to support the growth of the Musée d'Art contemporain de Montréal, primarily by contributing to the enrichment of its collection. Its duties include soliciting members, managing memberships and mailing lists, planning volunteer work and promoting fundraising activities.

To help the foundation fulfil its mandate, the Musée d'Art contemporain de Montréal provides it with office space and the services required for its smooth operation (furniture, telephones, photocopies, computers and printer, office supplies and postage expenses). The Musée also makes space available to the foundation for the special events it organizes.

In return, the foundation provides the Musée with various services, such as running the cloakroom, maintaining the computerized mailing list for invitations to openings, the Musée's newsletter and its calendar of events, and providing the necessary manpower for mailings. During the year, the Musée d'art contemporain de Montréal concluded transactions in the normal course of operations with the Fondation.

In 2002, the Fondation ran a major fundraising campaign, *Une Affaire d'Art*, to enhance the Musée's educational activities and expand its collection. The donations received are recorded as income from donations when used for the campaign's educational activities. At March 31, 2004, the Fondation had pledges totalling \$843 500 (2003: \$935 500). These pledges will be recorded when cashed in future years. Total campaign costs totalled \$38 766 (2003: \$117 576).

Deferred *Une Affaire d'Art* fundraising campaign donations:

	2004	2003
Opening balance	\$147 629	
Donations cashed during the year	282 000	\$254 067
Amounts recorded as income from donations during the year	(317 384)	(106 438)
Closing balance	<u>\$112 245</u>	<u>\$147 629</u>

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd) March 31, 2004

5. FONDATION DU MUSÉE (cont'd)

At March 31, 2004, the Fondation held \$25 000 (2003: \$25 000) in liquid assets belonging to the Musée. Provision has been made, in the event that the Fondation is dissolved or its activities cease, for the assets remaining after payment of its debts to be remitted to the Musée. The Fondation's net assets totalled \$285 801 at March 31, 2004 (2003: \$232 426). At the end of the fiscal year, the net balance owing by the Fondation to the Musée was \$350 541 (2003: \$206 093).

6. FINANCIAL SPONSORSHIPS

	2004	2003
Sponsorships obtained in exchange for advertising, posted when exhibitions were presented	\$60 997	\$30 050
Sponsorships obtained for the realization of exhibitions	137 213	22 200
Other donations	191 180	31 508
	<u>\$389 390</u>	<u>\$83 758</u>

7. INVESTMENT INCOME

	2004	2003
Income from unappropriated resources	\$51 482	\$41 246
Income from resources held in the Endowment Fund for the Acquisition of Works of Art	58 198	64 119
Less: Deferred amounts slated for the acquisition of works of art	<u>(58 198)</u>	<u>(64 119)</u>
	<u>\$51 482</u>	<u>\$41 246</u>

8. COLLECTIONS

The Musée d'Art contemporain de Montréal holds 6 479 works of art, including 1 326 in the Lavalin Collection, which the Musée acquired in 1992 through a special \$5 400 000 subsidy from the Gouvernement du Québec. The Musée's overall collection comprises paintings, sculptures, prints, photographs, installation works, films and videos, most of which were produced after 1939, the cutoff date for the period covered by the Musée's activities. The Musée develops its collection in keeping with the mandate entrusted to it under its governing statute, that is, to ensure a place for contemporary Québec art on the Canadian and international art scenes.

Among other things, the Musée maintains archival collections, comprising primarily the Fonds Borduas, the Fonds Boulerice, the Fonds Mousseau and the Fonds Yves Trudeau.

During fiscal 2003-2004, the Musée acquired 129 works of art and archives (2003: 93), 15 of which were purchased (2003: 13) for a total of \$276 030 (2003: \$263 830) and 114 were from donations (2003: 80) for a total of \$2 226 503 (2003: \$2 049 435).

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**9. INTERFUND CONTRIBUTIONS**

Objects	General Fund		Commercial Activities Fund		Fixed Assets Fund		Fundraising Campaign Fund	
	2004	2003	2004	2003	2004	2003	2004	2003
Expenditures financed by the Fundraising Campaign Fund ^(a)	\$278 618	\$21 432					\$(278 618)	\$(21 432)
Positive fund balance ^(b)	189 424	202 053	\$(189 424)	\$(202 053)				
Fixed assets financed by the General Fund ^(c)	(108 574)				\$108 574			
	<u>\$359 468</u>	<u>\$223 485</u>	<u>\$(189 424)</u>	<u>\$(202 053)</u>	<u>\$108 574</u>		<u>\$(278 618)</u>	<u>\$(21 432)</u>

(a) Transfer to the General Fund to cover education expenses related to the fundraising campaign.

(b) Transfer to the General Fund of the portion of the Commercial Activities Fund balance in excess of \$275 000.

(c) Transfer from the General Fund to the Fixed Assets Fund to finance amortization expenses for unsubsidized equipment.

10. INVESTMENTS

	2004						2003	
	General Fund		Endowment Fund		Total		Total	
	Cost	Fair value	Cost	Fair value	Cost	Fair value	Cost	Fair value
Short-term investments								
Deposits and T-bills maturing in July 2004, interest of 2%	<u>\$7 389</u>	<u>\$7 389</u>	<u>\$121 234</u>	<u>\$121 646</u>	<u>\$128 623</u>	<u>\$129 035</u>	<u>\$187 689</u>	<u>\$187 689</u>
Portfolio investments								
Bonds maturing between 1 and 5 years, interest of 3.75% to 7.25%	\$346 042	\$360 706	\$214 029	\$233 496	\$560 071	\$594 202	\$427 332	\$424 110
6 and 10 years, interest of 5.0% to 10.25%	408 919	426 867	587 403	617 763	996 322	1 044 630	749 834	759 628
11 years and more, interest of 6.15% to 8%			88 343	102 667	88 343	102 667	365 327	361 382
	<u>754 961</u>	<u>787 573</u>	<u>889 775</u>	<u>953 926</u>	<u>1 644 736</u>	<u>1 741 499</u>	<u>1 542 493</u>	<u>1 545 120</u>
Marketable securities			936 722	1 004 419	936 722	1 004 419	889 021	791 456
	<u>\$754 961</u>	<u>\$787 573</u>	<u>\$1 826 497</u>	<u>\$1 958 345</u>	<u>\$2 581 458</u>	<u>\$2 745 918</u>	<u>\$2 431 514</u>	<u>\$2 336 576</u>

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**10. INVESTMENTS**

The net investment income accumulated at March 31, 2004, and available for acquisitions under the Fund's regulations, totalled \$592 510 (2003: \$534 312) and are recorded as deferred investment income in the General Fund.

11. FIXED ASSETS FUND – FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net value
Storerooms for works of art	\$633 404	\$621 810	\$11 594
Computer system	428 183	392 652	35 531
Musée furnishings	3 670 376	3 348 478	321 898
Musée equipment	263 699	206 019	57 680
Audiovisual equipment	412 260	393 113	19 147
Gift shop equipment	47 434	47 434	
Restaurant equipment	112 213	97 142	15 071
Sculpture garden	483 281	478 392	4 889
	<u>\$6 050 850</u>	<u>\$5 585 040</u>	<u>\$465 810</u>
			<u>\$460 908</u>

12. FIXED ASSETS FUND – BANK ADVANCES

	2004	2003
Demand loans authorized by decree for a maximum amount of \$927 700 (2003: \$804 700) bearing interest at the prime rate	<u>\$536 700</u>	<u>\$326 500</u>

13. OPERATING FUND – CREDIT LINE

The Musée has a \$1 000 000 line of credit authorized by Gouvernement du Québec Order-in-Council and bearing interest at the prime rate for a term not to exceed one year. At March 31, 2003 and 2004, no amount was owing.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

14. LONG-TERM DEBT

	2004						2003	
	Fixed Assets Fund		Fundraising Campaign Fund		Total		Total	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 9.5%, guaranteed by the Gouvernement du Québec, repayable in nine annual instalments of \$308 832 beginning April 1, 1996 and a final instalment of \$4 941 312 on April 1, 2005	\$5 250 144	\$5 861 671			\$5 250 144	\$5 861 671	\$5 558 976	\$6 361 760
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 6.076%, guaranteed by the Gouvernement du Québec, repayable in ten annual instalments of \$83 981 beginning June 1, 2003	151 166	162 935	\$604 665	\$651 740	755 831	814 675	839 812	878 269
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 6.296%, guaranteed by the Gouvernement du Québec, repayable in eight annual instalments of \$41 041 \$ beginning June 28, 2002 and a final instalment of \$287 284 on June 28, 2010	533 528	591 143			533 528	591 143	574 569	612 600
	5 934 838	6 615 749	604 665	651 740	6 539 503	7 267 489	6 973 357	7 852 629
Less: current portion	366 669	366 669	67 185	67 185	433 854	433 854	433 854	433 854
	<u>\$5 568 169</u>	<u>\$6 249 080</u>	<u>\$537 480</u>	<u>\$584 555</u>	<u>\$6 105 649</u>	<u>\$6 833 635</u>	<u>\$6 539 503</u>	<u>\$7 418 775</u>

The principal on these loans is paid in annual instalments out of the Gouvernement du Québec subsidy received for this purpose.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**14. LONG-TERM DEBT** (cont'd)

Payments of principal on the long-term debt for the next five fiscal years are as follows:

2005	\$433 854
2006	5 066 334
2007	125 022
2008	125 022
2009	125 022

15. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES

The deferred subsidies shown in the Fixed Assets Fund and the Lavalin Collection Fund include the non-amortized portion of contributions received and receivable in the form of subsidies.

	2004	2003
Fixed Assets Fund		
Opening balance	\$464 292	\$623 199
Specific subsidy for the long-term debt		
Amortization of deferred subsidies	(148 317)	(158 907)
Closing balance	315 975	464 292
Collection Lavalin Fund		
Opening balance		552 060
Amortization of deferred subsidies		(552 060)
Closing balance		
Total	\$315 975	\$464 292

16. GENERAL FUND – FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Musée participate in the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Musée's contributions charged to the year-end statement amount to \$131 270 (2003: \$126 822). The Musée's liability towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave

	2004	2003
Closing balance	\$691 070	\$561 400
Charge for the year	112 871	194 940
Benefits paid during the year	(97 745)	(65 270)
Closing balance	\$706 196	\$691 070

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

17. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Musée is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Musée did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

18. FINANCIAL INSTRUMENTS**Fair value**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

MANAGEMENT'S REPORT

The financial statements of the Musée d'Art contemporain de Montréal were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carries out audits periodically to ensure that the internal controls applied regularly by the Musée are appropriate and consistent.

The Musée recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the budget, audit and management advisory committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Musée's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the budget, audit and management advisory committee to discuss any matter related to the audit.

Marcel Brisebois
Director General

Montréal, June 4, 2004

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Musée d'Art contemporain de Montréal as at March 31, 2004 and the statements of income and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Musée management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Musée's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 4, 2004

MUSÉE DE LA CIVILISATION
(R.S.Q., c. M-44)

INCOME
for the year ended March 31, 2004

	2004	2003 (Note 3)
REVENUE		
Gouvernement du Québec subsidies		
Operations (Note 4)	\$11 638 843	\$17 581 100
Other (Note 5)	6 644 102	4 452 206
Gain on dispute settlement (Note 4)	4 256 246	
Other subsidies for specific projects	189 311	490 989
Financial sponsorships (Note 6)	561 909	555 226
Fondation du Musée de la Civilisation contribution (Note 7)	23 000	31 000
Admission fees	926 191	768 526
Gift shop	672 560	601 720
Exhibition loans	77 234	1 004 255
Franchises and rentals	448 689	331 406
Sales of goods and services	306 135	180 418
Interest on short-term investments	171 947	116 228
Other	100 010	47 745
	<u>26 016 177</u>	<u>26 160 819</u>
Sponsorships in exchange for goods and services	324 122	453 544
	<u>26 340 299</u>	<u>26 614 363</u>
EXPENDITURE		
Salaries and fringe benefits	11 968 986	11 122 667
Professional services	3 358 100	4 023 403
Rent	621 018	451 461
Transportation and communications	2 213 790	2 062 532
Equipment and supplies	1 848 289	2 034 289
Maintenance and repairs	797 935	821 745
Administrative expenses	605 838	182 180
Municipal and school taxes	730 708	1 988 767
Acquisitions for Musée collections	13 170	22 876
	<u>22 157 834</u>	<u>22 709 920</u>
Interest on long-term debt	1 291 628	1 091 360
Depreciation of fixed assets	2 680 078	2 243 308
	<u>3 971 706</u>	<u>3 334 668</u>
Exchange for goods and services		
Professional services	86 265	109 110
Transportation and communications	133 858	275 486
Equipment and supplies	103 999	68 948
	<u>324 122</u>	<u>453 544</u>
	<u>26 453 662</u>	<u>26 498 132</u>
(DEFICIENCY) EXCESS REVENUE OVER EXPENDITURE	<u><u>\$(113 363)</u></u>	<u><u>\$116 231</u></u>

MUSÉE DE LA CIVILISATION

CHANGES IN NET ASSETS
for the year ended March 31, 2004

	2004				2003
	Invested in fixed assets	Appropriated to the reserve for self- insurance	Non appropriated	Total	Total
NET ASSETS, BEGINNING OF YEAR					
Previously established balance	\$671 182	\$25 000	\$18 081	\$714 263	\$609 468
Adjustment (Note 3)			10 664	10 664	(772)
Adjusted balance	671 182	25 000	28 745	724 927	608 696
(Deficiency) excess revenue over expenditure	(153 519)		40 156	(113 363)	116 231
Fixed asset investments	13 320		(13 320)		
NET ASSETS, END OF YEAR	\$530 983	\$25 000	\$55 581	\$611 564	\$724 927

MUSÉE DE LA CIVILISATION**BALANCE SHEET**
as at March 31, 2004

	<u>2004</u>	<u>2003</u> (Note 3)
ASSETS		
Current assets		
Cash on hand (Note 8)	\$4 630 946	\$1 450 126
Short-term investments		1 000 000
Accounts receivable	695 209	690 779
Gouvernement du Québec subsidies receivable (Note 9)	3 585 989	2 623 553
Gift shop inventory	160 733	157 653
Prepaid expenses	392 820	606 983
	<u>9 465 697</u>	<u>6 529 094</u>
Deferred expenses	124 778	72 825
Gouvernement du Québec subsidies receivable (Note 9)	27 681 079	16 668 704
Fixed assets (Note 10)	<u>41 812 479</u>	<u>32 776 767</u>
	<u>\$79 084 033</u>	<u>\$56 047 390</u>
LIABILITIES		
Current liabilities		
Bank loans (Note 11)	\$4 018 485	\$1 613 181
Accounts payable and accruals	1 801 889	1 717 117
Accrued interest	683 890	442 106
Provision for vacation time (Note 16)	877 939	739 000
Deferred contributions (Note 12)	994 932	348 563
Deferred revenue	362 640	34 154
Instalments on long-term debt (Note 13)	2 215 817	1 535 905
	<u>10 955 592</u>	<u>6 430 026</u>
Provision for sick leave (Note 16)	1 982 489	1 785 493
Deferred contributions (Note 12)	41 854 244	32 236 728
Long-term debt (Note 13)	<u>23 680 144</u>	<u>14 870 216</u>
	<u>78 472 469</u>	<u>55 322 463</u>
NET ASSETS		
Net assets invested in fixed assets	530 983	671 182
Net assets assigned to the reserve for self-insurance	25 000	25 000
Non appropriated net assets	55 581	28 745
	<u>611 564</u>	<u>724 927</u>
	<u>\$79 084 033</u>	<u>\$56 047 390</u>

CONTINGENCIES (Note 17)

On behalf of the Board of Directors,
 Jacques Mercier
 Henri Grondin

MUSÉE DE LA CIVILISATION**CASH FLOWS**

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u> (Note 3)
OPERATING ACTIVITIES		
(Deficiency) excess revenue over expenditure	\$(113 363)	\$116 231
Adjustments for:		
Amortization of deferred expenses	19 225	12 107
Depreciation of fixed assets	2 680 078	2 243 308
Amortization of deferred contributions	(2 737 815)	(1 993 316)
Management costs capitalized to the debt	3 859	5 252
Interest capitalized to the borrowing	7 533	2 138
	<u>(140 483)</u>	<u>385 720</u>
Change in non-cash elements of the Working Capital Fund:		
Change in accounts receivable	(4 430)	264 496
Change in Gouvernement du Québec subsidies receivable	(282 524)	167 948
Change in Fondation du Musée de la Civilisation contribution receivable		303 600
Change in gift shop inventory	(3 080)	13 497
Change in prepaid expenses	214 163	45 252
Change in accounts payable and accruals	45 065	(557 242)
Change in accrued interest	241 784	(78 734)
Change in provision for vacation time	138 939	(55 791)
Change in deferred contributions	646 369	(83 075)
Change in deferred revenue	328 486	(52 798)
Change in provision for sick leave	196 996	(27 120)
	<u>1 521 768</u>	<u>(59 967)</u>
Cash flows related to operating activities	<u>1 381 285</u>	<u>325 753</u>
FINANCING ACTIVITIES		
Bank loans	2 397 770	721 227
Gouvernement du Québec subsidies received	663 045	1 522 748
Long-term debt	10 097 074	
Repayment on long-term debt	(682 271)	(1 534 855)
Cash flows related to financing activities	<u>12 475 618</u>	<u>709 120</u>
INVESTMENT ACTIVITIES		
Cash flows related to investment activities:		
Acquisition of fixed assets	<u>(11 676 083)</u>	<u>(1 000 202)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	2 180 820	34 671
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2 450 126</u>	<u>2 415 455</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 15)	<u>\$4 630 946</u>	<u>\$2 450 126</u>

MUSÉE DE LA CIVILISATIONNOTES TO FINANCIAL STATEMENTS
March 31, 2004

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Musée de la Civilisation was established under the National Museums Act (R.S.Q., c. M-44). Its functions are to make known the history and the various cultural elements of our civilization, particularly the social and material aspects of the cultures of the occupants of the territory of Québec and the cultures that have contributed to the enrichment of those cultures, to ensure the preservation and development of the ethnographic collection and other representative collections of our civilization and to ensure the participation of Québec in the international network of museological events through acquisitions, exhibitions and other cultural activities.

The Musée de la Civilisation has been recognized as a charitable organization within the meaning of the Income Tax Act and is, consequently, eligible for the tax exemption (federal and provincial) pertaining to such organizations.

2. ACCOUNTING POLICIES

The financial statements of the Musée were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Reporting contributions

Contributions include subsidies, sponsorships and contributions obtained in order to produce exhibitions.

Contributions are recorded using the deferral method. Appropriated contributions are recognized as revenue in the year in which the related expenditure is incurred. Non-appropriated contributions are recognized as revenue when they are received or are receivable if the amount receivable can be evaluated with reasonable assurance and its receipt is reasonably assured.

Gouvernement du Québec subsidies receivable

Subsidies receivable for fixed assets and their maintenance are recorded during the fiscal year in which the Musée obtained the financing or carried out the work entitling it to these subsidies.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term investments that are highly liquid and easily convertible into a known amount of cash whose value is unlikely to change significantly.

Short-term investments

Short-term investments are recorded at the lesser of cost and market value.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Musée lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Acquisitions for Musée collections

Works purchased for the Musée's collections are charged to operations. Donated works are not recorded in the financial statements.

Gift shop inventory

The inventory of the Musée's gift shop is valued at the lower of cost and net realizable value. Cost is determined by the first in, first out (FIFO) method.

MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd) March 31, 2004

2. ACCOUNTING POLICIES (cont'd)

Deferred expenses

Issue expenses on the long-term debt are deferred and amortized over the term of the debt on a straight-line basis.

Fixed assets

Fixed assets are recorded at cost or, if they are acquired free of charge, according to the municipal assessment on the date of acquisition. They are depreciated on a straight-line basis over their estimated service lives, namely:

Buildings	40 years
Building additions and furnishings	10 years
Leasehold improvements	10 years
Furniture and equipment	5 years
Handling, storage, processing and production equipment	5 years
Lighting and sound equipment	5 years
Commercial activity equipment	5 years
Data processing and audiovisual equipment	3 years

Contributions in the form of goods and services

The Musée receives goods and services free of charge, including restoration services for art works and objects from the Ministère de la Culture et des Communications. These contributions are reported in the financial statements at the fair value of the services received.

Services rendered by volunteers

Due to the difficulty in determining the fair value of the services provided free of charge by volunteers, they are not considered in the Musée's proceeds and charges.

3. CHANGE IN ACCOUNTING POLICIES

The financial statements for the fiscal year ended on March 31, 2004 were adjusted to record all of the obligations resulting from the employer contributions to the fringe benefit plans linked to vacation time and sick leave cumulated by Musée employees at fiscal year-end as liabilities under "Provision for vacation time". Previously, these contributions were recorded to operations for the fiscal year during which the employees used their holidays.

The Gouvernement du Québec awarded a specific subsidy of \$358 870 for financing employer contributions for vacation time and sick leave cumulated by Musée employees.

The retroactive application of these changes increase (decrease) the following items in the financial statements:

	2004	2003
Income		
Salaries and fringe benefits	\$46 336	\$(11 436)
Balance sheet		
Gouvernement du Québec subsidy receivable	358 870	358 870
Provision for vacation time	121 095	101 931
Provision for sick leave	273 447	246 275
Unappropriated net assets	(35 672)	10 664

MUSÉE DE LA CIVILISATIONNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**4. GAIN ON DISPUTE SETTLEMENT**

Under a Commission municipale de Québec ruling, the Musée's means of municipal and school taxation was modified retroactive to the year 2001. AS a result, the Gouvernement du Québec subsidy was adjusted downward for the fiscal year.

The gain resulting from the settlement breaks down as follows:

Change in means of taxation	\$3 609 973
Interest income	<u>646 273</u>
	<u>\$4 256 246</u>

5. GOUVERNEMENT DU QUÉBEC SUBSIDIES – OTHER

	<u>2004</u>	<u>2003</u>
Repayment of interest on the long-term debt	\$1 280 236	\$1 083 970
Repayment of interest on bank borrowings to maintain assets	104 462	
Amortization of deferred contributions*	2 737 815	1 993 316
Specific projects	1 621 589	674 920
Centre d'interprétation de Place-Royale	700 000	700 000
Property taxes	<u>200 000</u>	
	<u>\$6 644 102</u>	<u>\$4 452 206</u>

* Amortization of deferred contributions at the same rate as fixed assets (authorized by orders-in-council).

6. FINANCIAL SPONSORSHIPS

	<u>2004</u>	<u>2003</u>
Commercial sponsorships received in exchange for publicity items, recognized when the related exhibition is shown	\$159 755	\$176 000
Specific sponsorships received for showing exhibitions	181 427	154 300
Gouvernement du Québec contributions for showing exhibitions	220 727	215 927
Gifts		<u>8 999</u>
	<u>\$561 909</u>	<u>\$555 226</u>

7. RELATED PARTY TRANSACTIONS

The Fondation du Musée de la Civilisation, which is subject to significant influence by the Musée, was established under Part III of the Québec Companies Act to solicit funds to finance the Musée's cultural and educational activities. In accordance with the regulations governing the Fondation, contributions may be paid to the Musée de la Civilisation only if the Fondation posts a surplus of \$300 000. Furthermore, should the Fondation wind down, its net assets would be remitted to the Musée. The Fondation's net assets as at March 31, 2004 amounted to \$569 846 (2003: \$553 157). In order to achieve its objectives, the Musée makes available to the Fondation the personnel needed for its operations to run smoothly.

MUSÉE DE LA CIVILISATIONNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**7. RELATED PARTY TRANSACTIONS (cont'd)**

During the year, the Musée acquired the Réserve muséale de la Capitale nationale from the Société immobilière for \$9 947 074. The Musée nationale des beaux-arts du Québec agreed, under a long-term occupancy agreement ending June 27, 2023, to rent spaces of the Réserve muséale de la Capitale nationale. Rental income totalled \$124 766 at March 31, 2004.

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Musée is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Musée did not conclude any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

8. CASH

Cash bears interest on a daily basis at the prime rate less 1.75%. At March 31, 2004, the rate was 2.25%.

9. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

Gouvernement du Québec subsidies receivable entered as current assets are as follows:

	2004	2003
Interest accrued on the long-term debt	\$683 890	\$442 106
Capital repayments on long-term debt payable in the coming fiscal year	2 215 817	1 535 905
Other subsidies receivable	686 282	645 542
	<u>\$3 585 989</u>	<u>\$2 623 553</u>

Those presented as long-term are as follows:

	2004	2003
Adjusted balance of subsidies receivable at the beginning of the year	\$18 204 609	\$18 821 569
Subsidies – Fixed assets and asset maintenance	11 702 470	798 650
Subsidy – Le Temps des Québécois	652 862	107 138
Amortization of deferred issuing costs	19 225	12 107
Capital subsidies on long-term debt	(682 270)	(1 534 855)
Balance of subsidies receivable at year-end	29 896 896	18 204 609
Capital repayments on long-term debt payable in the coming fiscal year	(2 215 817)	(1 535 905)
Balance of long-term subsidies receivable	<u>\$27 681 079</u>	<u>\$16 668 704</u>

MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**10. FIXED ASSETS**

	Acquisitions 2003-04	2004		2003	
		Cost	Accumulated depreciation	Net	Net
Land		\$2 532 891		\$2 532 891	\$2 532 891
Buildings	\$10 248 317	51 089 352	\$16 358 592	34 730 760	25 765 508
Building additions and furnishings	166 517	9 325 495	7 865 533	1 459 962	1 524 940
Leasehold improvements	3 656	4 160 280	2 386 834	1 773 446	2 185 818
Office furniture and equipment	11 769	2 027 183	1 999 981	27 202	277 633
Handling, storage processing and production equipment	1 029 544	1 834 448	769 440	1 065 008	326 999
Lighting and sound equipment	13 448	767 102	746 705	20 397	23 539
Commercial activity equipment	6 542	127 577	108 611	18 966	35 265
Data processing and audiovisual equipment	235 997	1 222 061	1 038 214	183 847	104 174
	<u>\$11 715 790</u>	<u>\$73 086 389</u>	<u>\$31 273 910</u>	<u>\$41 812 479</u>	<u>\$32 776 767</u>

11. BANK LOANS

The Gouvernement du Québec authorized the Musée to contract short-term borrowings of \$3 000 000 for its operations and short-term borrowings not to exceed \$760 000 for the design and realization of a permanent Musée exhibition. At March 31, 2004, the short-term borrowings balance was \$760 000.

The Gouvernement du Québec also authorized the Musée to contract short-term borrowings for fixed assets and their maintenance for a maximum of \$4 402 600. At March 31, 2004, the short-term borrowings balance was \$3 258 485.

The bank borrowings contracted bear interest at the prime rate. At March 31, 2004, this rate was 4.00%.

12. DEFERRED CONTRIBUTIONS

The deferred contributions presented in the short-term relate to the amounts received during the fiscal year and destined to cover the charges related to certain exhibitions beginning or running into subsequent fiscal years. Changes in the short-term balance are as follows:

	2004	2003
Opening balance	\$348 563	\$431 638
Amount recorded as proceeds for the fiscal year	(291 064)	(359 174)
Amount received for subsequent fiscal years	937 433	276 099
Closing balance	<u>\$994 932</u>	<u>\$348 563</u>

With the following breakdown:

Gouvernement du Québec	\$952 722	\$252 199
Other deferred contributions	42 210	96 364
	<u>\$994 932</u>	<u>\$348 563</u>

MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**12. DEFERRED CONTRIBUTIONS (cont'd)**

The deferred contributions presented as long-term include Gouvernement du Québec commitments related to fixed assets and their maintenance and to the permanent exhibition Le Temps des Québécois. Changes in the long-term balance are as follows:

	2004	2003
Balance at the beginning of the year	\$32 236 728	\$33 324 256
Subsidies – Fixed assets and assets maintenance	11 702 470	798 650
Subsidy – Le Temps des Québécois	652 861	107 138
Amortization of deferred contributions	(2 737 815)	(1 993 316)
Closing balance	<u>\$41 854 244</u>	<u>\$32 236 728</u>

13. LONG-TERM DEBT

	2004	2003
Borrowings on a note from the Financing Fund of the Gouvernement du Québec, guaranteed by the Gouvernement du Québec:		
5.95% repayable in annual instalments of \$420 737 on the principal of the borrowing, maturing December 1, 2010	\$5 469 583	\$5 890 320
4.311% repayable in annual instalments of \$84 528 on the principal of the borrowing, maturing October 1, 2008	422 639	
6.85% repayable in annual instalments of \$306 580 on the principal of the borrowing, maturing October 1, 2007	4 905 280	5 211 860
5.48% repayable in annual instalments of \$432 898 on the principal of the borrowing, maturing October 24, 2008	2 164 491	2 597 389
4.153% repayable in annual instalments of \$86 971 on the principal of the borrowing, maturing October 1, 2008	434 855	
5.39% repayable in annual instalments of \$210 070 on the principal of the borrowing, maturing April 2, 2007	840 281	1 050 352
7.16% repayable in annual instalments of \$86 073 on the principal of the borrowing, maturing October 1, 2007	774 660	860 733
7.16% repayable in annual instalments of \$79 547 on the principal of the borrowing, maturing October 1, 2007	715 920	795 467
5.149% repayable in annual instalments of \$508 413 on the principal of the borrowing, maturing October 1, 2013	<u>10 168 252</u>	<u>16 406 121</u>
	25 895 961	
Instalments due within one year	<u>2 215 817</u>	<u>1 535 905</u>
	<u>\$23 680 144</u>	<u>\$14 870 216</u>

Principal payments on these borrowings are made annually out of subsidies provided for this purpose by the Gouvernement du Québec.

MUSÉE DE LA CIVILISATIONNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**13. LONG-TERM DEBT** (cont'd)

Payments of principal on the long-term debt for the next five fiscal years, assuming that these amounts will be refinanced at the same conditions on maturing, are as follows:

2005	\$2 215 817
2006	2 215 817
2007	2 215 817
2008	2 215 817
2009	2 005 747

14. WORKS DONATED FOR MUSÉE COLLECTIONS

The Musée gives receipts for donated works, the value of which is certified by the Canadian Cultural Property Export Review Board. The cumulative value of works donated since 1991 breaks down as follows:

	2004	2003
Opening balance	\$3 856 983	\$3 738 827
Receipt issued	47 918	118 156
Closing balance	<u>\$3 904 901</u>	<u>\$3 856 983</u>

15. CASH FLOWS**Interest paid**

	2004	2003
Interest paid on Financing Fund borrowings	\$1 019 228	\$1 149 885
Interest paid on short-term borrowings	104 725	55 765
Closing balance	<u>\$1 123 953</u>	<u>\$1 205 650</u>

Cash and cash equivalents

	2004	2003
Cash on hand	\$4 630 946	\$1 450 126
Short-term investments	<u>1 000 000</u>	<u>1 000 000</u>
	<u>\$4 630 946</u>	<u>\$2 450 126</u>

16. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Musée de la Civilisation participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) or Civil Service Superannuation Plan (CSSP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Musée's contributions charged to the year-end statement amount to \$356 921 (2003: \$341 619). The liability of the Musée towards these Government plans is restricted to its contributions as an employer.

MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

16. FUTURE FRINGE BENEFITS (cont'd)**Provision for sick leave and vacation time**

	2004		2003	
	Vacation time	Sick leave	Vacation time	Sick leave
Opening balance	\$739 000	\$1 785 493	\$794 791	\$1 812 613
Charges for the year	747 727	555 037	643 912	256 084
Benefits paid during the year	(608 788)	(358 041)	(699 703)	(283 204)
Closing balance	<u>\$877 939</u>	<u>\$1 982 489</u>	<u>\$739 000</u>	<u>\$1 785 493</u>

17. CONTINGENCIES**Legal action involving damages and interest**

Legal action involving damages and interest taken against the Musée totals \$201 750. In the Musée's opinion, no significant liability can result from these proceedings.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS**Gouvernement du Québec subsidies receivable**

At March 31, 2004, the fair value of Gouvernement du Québec subsidies receivable in the amount of \$30 580 786 (2003: \$18 646 715) was \$32 128 748 (2003: \$19 459 550).

Long-term debt

At March 31, 2004, the fair value of the long-term debt of \$25 895 961 (2003: \$16 406 121) was \$28 127 813 (2003: \$17 661 062), given the discounting of cash flows at market rates for certificates of a similar nature inert terms of maturity and interest rate.

Short-term financial instruments

The book values of short-term financial instruments are representative of their fair value, given that they mature in the near future.

19. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

MUSÉE DE LA CIVILISATION**MANAGEMENT'S REPORT**

The financial statements of the Musée de la Civilisation were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carries out audits periodically to ensure that the internal controls applied regularly by the Musée are appropriate and consistent.

The Musée recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties and has approved the financial statements. It was assisted by the audit committee, whose members are not part of management. This committee meets with management, examines the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Musée's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to this audit.

Claire Simard
Director General

Danielle Poiré
Director of Curatorship and Administration

Québec, June 7, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Musée de la Civilisation as at March 31, 2004 and the statements of income, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of Musée management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present, in all material respects, the Musée's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 7, 2004

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC
(R.S.Q., c. M-44)

INCOME
for the year ended March 31, 2004

	2004				2003
	General Fund	Commercial Activities Fund	Fixed Assets Fund	Endowment Fund	Total (Note 4)
REVENUE					
Gouvernement du Québec subsidies (Note 5)	\$10 417 284		\$5 277 378		\$15 694 662
Government of Canada subsidies (Note 6)	402 293				402 293
Admission and cloakroom fees	471 145				471 145
Parking		\$160 048			160 048
Gift shop and publications		527 708			527 708
Royalties – Food services		88 256			88 256
Space rental and ancillary services	119 523	161 848			281 371
Works of art and exhibitions on loan	164 269				164 269
Educational and cultural activities	136 247				136 247
Sponsorships	272 912				272 912
Contribution – Fondation du Musée du Québec (Note 8)	100 000				100 000
Other contributions and partnerships	182 402				182 402
Investment income (Note 9)	176 035	11 024			187 059
Other	28 946				28 946
	<u>12 471 056</u>	<u>948 884</u>	<u>5 277 378</u>		<u>18 697 318</u>
					<u>17 438 681</u>
EXPENDITURE					
Salaries and fringe benefits	6 685 276	269 139			6 954 415
Energy, taxes and insurance	891 389				891 389
Professional, administrative and other services	1 614 095	47 432			1 661 527
Maintenance, repairs and development	879 314	9 280	233 343		1 121 937
Transportation and communications	1 778 596	3 316			1 781 912
Materials and supplies	768 930	256 457			1 025 387
Room rental	181 717				181 717
Acquisition of works of art (Note 10)	569 177				569 177
Rental of equipment and space	340 431				340 431
	<u>\$13 708 925</u>	<u>\$585 624</u>	<u>\$233 343</u>		<u>\$14 527 892</u>
Amounts carried forward					<u>\$13 980 738</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

INCOME (cont'd)
for the year ended March 31, 2004

	2004					2003
	General Fund	Commer- cial Activities Fund	Fixed Assets Fund	Endow- ment Fund	Total	Total
Amounts brought forward	\$13 708 925	\$585 624	\$233 343		\$14 527 892	\$13 980 738
Interest on long-term debt			1 583 382		1 583 382	1 650 121
Amortization of deferred expenses			14 614		14 614	14 629
Depreciation of fixed assets			3 469 847		3 469 847	1 548 299
Other	7 582				7 582	1 672
	<u>13 716 507</u>	<u>585 624</u>	<u>5 301 186</u>		<u>19 603 317</u>	<u>17 195 459</u>
(DEFICIENCY) EXCESS REVENUE OVER EXPENDITURE	<u><u>\$(1 245 451)</u></u>	<u><u>\$363 260</u></u>	<u><u>\$(23 808)</u></u>		<u><u>\$(905 999)</u></u>	<u><u>\$243 322</u></u>

CHANGES IN FUND BALANCES
for the year ended March 31, 2004

	2004					2003
	General Fund	Commer- cial Activities Fund	Fixed Assets Fund	Endow- ment Fund	Total	Total
OPENING FUND BALANCES	\$949 354	\$400 000	\$1 459 734	\$1 043 716	\$3 852 804	\$3 609 482
(Deficiency) excess revenue over expenditure	(1 245 451)	363 260	(23 808)		(905 999)	243 322
Interfund transfers (Note 11)	<u>363 260</u>	<u>(363 260)</u>				
CLOSING FUND BALANCES	<u><u>\$67 163</u></u>	<u><u>\$400 000</u></u>	<u><u>\$1 435 926</u></u>	<u><u>\$1 043 716</u></u>	<u><u>\$2 946 805</u></u>	<u><u>\$3 852 804</u></u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

BALANCE SHEET
as at March 31, 2004

	2004					2003
	General Fund	Commer- cial Activities Fund	Fixed Assets Fund	Endow- ment Fund	Total	Total (Note 4)
ASSETS						
Current assets						
Cash on hand, 2.10%	\$355 001	\$583 618	\$382	\$80 275	\$1 019 276	\$2 012 565
Short-term investments (Note 12)	87 556			59 703	147 259	132 619
Accounts receivable and accrued interest (Note 13)	815 819	947		8 920	825 686	958 399
Interfund receivables, interest-free and no repayment terms	408 459					
Subsidies receivable Gouvernement du Québec (Note 14)	1 114 678		2 551 436		3 666 114	2 989 457
Government of Canada	9 000				9 000	155 000
Inventory		210 636			210 636	169 577
Prepaid expenses	218 491				218 491	319 707
	<u>3 009 004</u>	<u>795 201</u>	<u>2 551 818</u>	<u>148 898</u>	<u>6 096 462</u>	<u>6 737 324</u>
Portfolio investments						
(Note 12)	1 425 688			896 821	2 322 509	2 259 218
Deferred expenses						
			163 935		163 935	178 549
Gouvernement du Québec subsidies receivable						
(Note 14)			24 907 917		24 907 917	25 520 999
Fixed assets (Note 15)						
	<u>\$4 434 692</u>	<u>\$795 201</u>	<u>\$28 953 380</u>	<u>\$1 045 719</u>	<u>\$28 953 380</u>	<u>\$31 498 712</u>
	<u>\$4 434 692</u>	<u>\$795 201</u>	<u>\$56 577 050</u>	<u>\$1 045 719</u>	<u>\$62 444 203</u>	<u>\$66 194 802</u>

COMMITMENTS (Note 23)

On behalf of the Board of Directors,
Claude Pinault
Michel Giroux

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

BALANCE SHEET (cont'd)
as at March 31, 2004

	2004				2003
	General Fund	Commercial Activities Fund	Fixed Assets Fund	Endowment Fund	Total (Note 4)
LIABILITIES					
Current liabilities					
Bank overdraft					\$4 771
Bank loans (Note 16)	\$175 000		\$3 447 619		2 171 000
Accounts payable and Accruals	1 418 474				1 598 700
Provision for vacation time (Note 21)	603 102				586 644
Interfund receivables, interest-free and no repayment terms		\$395 201	11 255 721 023	\$2 003	777 066
Accrued interest				721 023	
Client deposits and deferred income	129 515			129 515	110 860
Deferred contributions (Note 17)	758 150			758 150	589 183
Instalments on long-term debt (Note 18)			1 770 940		1 770 940
	3 084 241	395 201	5 950 837	2 003	7 609 164
Provision for sick leave (Note 21)	1 090 247			1 090 247	1 050 253
Deferred investment income	193 041			193 041	185 216
Deferred contributions (Note 17)			27 682 381	27 682 381	30 218 519
Long-term debt (Note 18)			21 507 906	21 507 906	23 278 846
	4 367 529	395 201	55 141 124	2 003	62 341 998
FUND BALANCES					
Fixed asset investments			1 435 926		1 459 734
External restrictions				1 043 716	1 043 716
Non-appropriated funds	67 163	400 000		467 163	1 349 354
	67 163	400 000	1 435 926	1 043 716	3 852 804
	\$4 434 692	\$795 201	\$56 577 050	\$1 045 719	\$66 194 802

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

CASH FLOWS

for the year ended March 31, 2004

	2004				2003
	General Fund	Commercial Activities Fund	Fixed Assets Fund	Endowment Fund	Total
					Total (Note 4)
OPERATING ACTIVITIES					
(Deficiency) excess of revenue over expenditure	\$(1 245 451)	\$363 260	\$(23 808)		\$(905 999)
Items not affecting liquid assets					
Amortization of deferred expenses			14 614		14 614
Depreciation of fixed assets			3 469 847		3 469 847
Amortization of deferred contributions - long term			(3 693 996)		(3 693 996)
	(1 245 451)	363 260	(233 343)		(1 115 534)
Change in non-cash items related to operations					
Accounts receivable and accrued interest	132 594	507		\$(388)	132 713
Subsidies receivable	(558 095)		27 438		(530 657)
Inventory		(41 059)			(41 059)
Prepaid expenses	101 216				101 216
Accounts payable and accruals	(180 226)				(180 226)
Provision for vacation time	16 458				16 458
Accrued interest			(56 043)		(56 043)
Client deposits and deferred income	18 655				18 655
Deferred contributions - short term	168 967				168 967
Provision for sick leave	39 994				39 994
Deferred investment income	7 825				7 825
	(252 612)	(40 552)	(28 605)	(388)	(322 157)
Cash flows provided by (used for) operating activities	(1 498 063)	322 708	(261 948)	(388)	(1 437 691)
INVESTMENT ACTIVITIES					
Acquisition of investments	(102 934)				(102 934)
Investment transfer				25 003	25 003
Acquisitions of fixed assets			(924 515)		(924 515)
Cash flows used for investment activities	(102 934)		(924 515)	25 003	(1 002 446)
Amounts carried forward	\$(1 600 997)	\$322 708	\$(1 186 463)	\$24 615	\$(2 440 137)
					\$(3 178 362)

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

CASH FLOWS (cont'd)
for the year ended March 31, 2004

	2004					2003
	General Fund	Commer- cial Activities Fund	Fixed Assets Fund	Endow- ment Fund	Total	Total (Note 4)
Amounts brought forward	<u>\$(1 600 997)</u>	<u>\$322 708</u>	<u>\$(1 186 463)</u>	<u>\$24 615</u>	<u>\$(2 440 137)</u>	<u>\$(3 178 362)</u>
FINANCING ACTIVITIES						
Deferred expenses						(171 670)
Gouvernement du Québec						
subsidies received			1 770 940		1 770 940	1 770 940
Bank loans			1 451 619		1 451 619	1 272 000
Long-term debt						171 670
Repayment of long-term debt			<u>(1 770 940)</u>		<u>(1 770 940)</u>	<u>(1 759 495)</u>
Cash flows provided by financing activities			<u>1 451 619</u>		<u>1 451 619</u>	<u>1 283 445</u>
INCREASE (DECREASE) IN CASH	<u>(1 600 997)</u>	<u>322 708</u>	<u>265 156</u>	<u>24 615</u>	<u>(988 518)</u>	<u>(1 894 917)</u>
CASH, BEGINNING OF YEAR	<u>1 338 134</u>	<u>607 497</u>	<u>(4 771)</u>	<u>66 934</u>	<u>2 007 794</u>	<u>3 902 711</u>
Interfund cash flow	<u>617 864</u>	<u>(346 587)</u>	<u>(260 003)</u>	<u>(11 274)</u>		
CASH, END OF YEAR (Note 19)	<u>\$355 001</u>	<u>\$583 618</u>	<u>\$382</u>	<u>\$80 275</u>	<u>\$1 019 276</u>	<u>\$2 007 794</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Musée national des beaux-arts du Québec was established under the National Museums Act (R.S.Q., c. M-44) to contribute to Québec's cultural development by making known, promoting and preserving Québec art of all periods, from ancient art to contemporary art, and by ensuring a place for international art through acquisitions, exhibitions and other cultural activities.

The Musée national des beaux-arts du Québec was recognized as a charitable organization within the meaning of the Income Tax Act and, as a result, is eligible for the tax exemption applicable to such organizations.

2. FUND OBJECTIVES

The Operating Fund presents the Musée's current operations.

The Commercial Activities Fund presents the Musée's commercial activities such as operation of the bookstore-giftshop, publications, parking and space rental. Under a regulation approved by the Government, the balance of this Fund, which must be used to fund the Musée's commercial activities, may not exceed \$400 000. The Fund's balance must be used to repay loans or finance Musée activities.

The Fixed Assets Fund presents the assets, liabilities, products and charges related to fixed assets. That portion of the Fund's balance that is not invested in fixed assets is reserved for the acquisition of fixed assets for the Musée and the payment of related fees. Moreover, the Musée may not, without the Government's prior authorization, acquire, dispose of, mortgage or rent an immovable.

The Endowment Fund presents the resources received in the form of endowments. Under a regulation approved by the Government, only investment income from the resources of this Fund may be used for fixed assets and the acquisition of works of art for the Musée collection.

3. ACCOUNTING POLICIES

The financial statements of the Musée national des beaux-arts du Québec were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Contributions

Contributions include subsidies and sponsorships and contributions obtained mainly for producing exhibitions.

The Musée uses the deferral method for recording contributions. The contributions made are posted as proceeds for the fiscal year in which the related charges are incurred. Unappropriated contributions are posted as products when they are received or receivable, if the amount receivable can be reasonably estimated and if it is reasonably certain that it will be received.

Subsidies receivable

Subsidies receivable related to fixed assets and their maintenance are recorded during the fiscal year in which the Musée obtained the funding or carried out the work entitling it to these subsidies.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

3. ACCOUNTING POLICIES (cont'd)**Endowments**

Endowments are recorded as a direct increase in the Endowment Fund's balance, whereas the investment income earned by this Fund is entered as deferred investment income in the Operating Fund and recorded as proceeds from the appropriate fund in the fiscal year in which the related charged are incurred.

Works of art

Acquisitions of works of art are charged to expenditure of the General Fund. Donated works are not recorded in the familial statements.

Short-term investments

Short-term investments are recorded at cost or market value, whichever is less.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined according to the first in, first out (FIFO) method.

Investments

Portfolio investments are recorded at cost. Any lasting drop in value is reduced by the investments' book value, where applicable.

Deferred expenses

Discounts and issue expenses on the long-term debt are deferred and amortized over the term of the debt. Discounts are amortized using the effective interest method to reflect the difference between the effective rate and the nominal rate of the debt. Issue expenses are amortized using the straight-line method.

Fixed assets

Fixed assets are recorded at cost or, if acquired free of charge, at the municipal assessment on the date of acquisition. They are depreciated over their estimated service lives on a diminishing-balance basis, at the following rates:

Buildings	40 years
Building development	10 years
Outside developments	10 years
Rolling stock	15 years
Specialized equipment	10 years
Furniture and office equipment	5 years
Computer and office automation equipment	3 years

Cash and cash equivalents

Cash and cash equivalents comprise cash minus bank overdrafts and short-term investments, which are easily convertible, and a known amount of cash whose value is unlikely to change significantly.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Musée lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Contributions in the form of services

The Ministère de la Culture et des Communications provides the Musée with art restoration services free of charge. These services are not shown in the financial statements.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

4. CHANGE IN ACCOUNTING POLICIES

The financial statements for the fiscal year ended on March 31, 2004 were adjusted to record all of the obligations resulting from the employer contributions to the fringe benefit plans linked to vacation time and sick leave cumulated by Musée employees at fiscal year-end as liabilities. Previously, these contributions were recorded to operations for the fiscal year during which the employees used their holidays.

The Gouvernement du Québec awarded a specific subsidy of \$233 418 for financing employer contributions for vacation time and sick leave cumulated by Musée employees.

The retroactive application of these changes increases (decreases) the following items in the financial statements:

	2004	2003
Income – Operating Fund		
Gouvernement du Québec subsidies –		
Operating expenses	\$7 663	\$4 578
Salaries and fringe benefits	7 663	4 578
Balance sheet – Operating Fund		
Gouvernement du Québec – Subsidies receivable	\$233 418	\$233 418
Gouvernement du Québec – Deferred contributions	4 374	12 037
Provision for vacation time	78 665	76 519
Provision for sick leave	150 379	144 862

5. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2004			2003
	General Fund	Fixed assets Fund	Total	Total
Operating expenses	\$10 255 725		\$10 255 725	\$10 181 600
Specific projects*	161 559		161 559	818 600
Interest on long-term debt		\$1 583 382	1 583 382	1 650 121
Long term – Amortization of deferred				
Gouvernement du Québec contributions		3 693 996	3 693 996	1 546 159
	\$10 417 284	\$5 277 378	\$15 694 662	\$14 196 480

* These projects are principally linked to the Musée's different exhibitions and to the acquisition of works of art.

6. GENERAL FUND - GOVERNMENT OF CANADA SUBSIDIES

	2004	2003
Department of Foreign Affairs	\$11 729	\$13 271
Department of Heritage Canada	225 650	59 510
Canada Council	164 914	211 695
	<u>\$402 293</u>	<u>\$284 476</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

7. NON-MONETARY TRANSACTIONS – OPERATING FUND

The Musée exchanges goods and services with certain suppliers. These non-monetary transactions are posted to the following items in the statement of income at the fair value of the goods and services exchanged:

	2004	2003
Revenue		
Admission and cloakroom fees	\$9 140	
Room rental and related services	119 523	\$102 727
Sponsorships	10 412	135 364
Expenditure		
Professional, administrative and other services	\$31 367	\$29 425
Rental of equipment and space	45 026	44 139
Transportation and communications	62 682	160 088
Supplies		4 439

8. GENERAL FUND - CONTRIBUTION - FONDATION DU MUSÉE DU QUÉBEC

The Fondation du Musée national des beaux-arts du Québec, on which the Musée exercises notable influence, is incorporated under Part III of the Québec Companies Act. It targets promoting the interests of the Musée national des beaux-arts du Québec in carrying out its mandate, enriching the Musée's permanent collection and seeking and receiving donations, subsidies, bequests and other contributions of a similar nature. To help the Fondation fulfil its mandate, the Musée provides it with some office space and staff required for its smooth operation. Should the Fondation wind down, the full balance of funds would be remitted to the Musée. Fund balances as at March 31, 2004 amounted to \$226 840 (2003: \$209 087). During the fiscal year, the Fondation contributed an amount of \$100 000 (2003: \$0).

9. INVESTMENT INCOME

	2004	2003
Revenue from unappropriated resources	\$187 059	\$128 832
Revenue from resources held as allocations	7 825	20 381
Total investment income earned during the fiscal year	194 884	149 213
Minus deferred amounts appropriated to fixed assets and acquisition of works of art for the Musée collection	(7 825)	(20 381)
Total investment income accounted for as proceeds	\$187 059	\$128 832

10. GENERAL FUND - WORKS OF ARTS

Works owned by the Musée du Québec are divided between the permanent and study collection and the collection of works for loan.

The permanent collection contains paintings, sculpture, illustrations, prints and photographs as well as decorative arts and design. This collection focuses on Québec art from all periods, from early to contemporary art.

The collection of works for loan was established by the Ministère des Affaires culturelles in 1982 as a measure to stimulate artistic creation in Québec through the acquisition of works by young artists. This collection, which contains the same type of works as the permanent collection, is intended for show primarily in public buildings of the Gouvernement du Québec and in Québec delegations abroad.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**10. GENERAL FUND - WORKS OF ARTS (cont'd)**

The cumulative cost of works of art acquired since the Musée du Québec was established on May 16, 1984 breaks down as follows:

	2004			2003
	Permanent and study collection	Collection for loan of works of arts	Total	Total
Opening balance	\$11 819 176	\$3 176 095	\$14 995 271	\$13 717 865
Purchases	388 821	180 356	569 177	1 277 406
Closing balance	<u>\$12 207 997</u>	<u>\$3 356 451</u>	<u>\$15 564 448</u>	<u>\$14 995 271</u>

The Musée gives receipts for most works donated, the value of which is certified by the Canadian Cultural Property Export Review Board. The cumulative value of donated works breaks down as follows:

	2004	2003
Opening balance	\$21 101 921	\$19 647 624
Receipts issued	1 499 719	1 454 297
Closing balance	<u>\$22 601 640</u>	<u>\$21 101 921</u>

11. INTERFUND TRANSFERS

An amount of \$363 260 (2003: \$476 330), representing the portion of the Commercial Activities Fund balance exceeding \$400 000, was transferred to the Operating Fund to finance disbursements related to repaying Musée borrowings or activities.

12. INVESTMENTS**General Fund**

	2004	2003
Short-term investments		
Canadian treasury bills (effective rate of 1.98% to 2.23%), maturing April 22 to May 20, 2004 (market value: \$87 875)	<u>\$87 556</u>	<u>\$39 734</u>
Portfolio investments		
Bonds, 4.25% to 7% (effective rate of 4.11% to 5.93%), maturing over the next ten fiscal years, (market value: \$1 315 496)	\$1 254 416	\$1 199 304
Bonds, 6.65% to 8% (effective rate of 6.26% to 6.47%), maturing between the eleventh and twentieth years following the fiscal year, (market value: \$168 451)	159 292	63 096
Bonds, 6.5% (effective rate of 6.16%), maturing after the twentieth year following the fiscal year, (market value: \$12 538)	<u>11 980</u>	<u>108 176</u>
	<u>\$1 425 688</u>	<u>\$1 370 576</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

12. INVESTMENTS (cont'd)**Endowment Fund**

	2004	2003
Short-term investments		
Canadian treasury bills (effective rate of 1.98%), maturing April 22, 2004 (market value: \$59 928)	\$59 703	\$92 885
Portfolio investments		
Bonds, 4.25% to 10.25% (effective rate of 4.11% to 7.5%), maturing over the next ten fiscal years, (market value: \$502 867)	\$467 517	\$405 566
Bonds, 6.15% to 8% (effective rate of 6.15% to 6.76%), maturing between the eleventh and twentieth years following the fiscal year, (market value: \$39 806)	37 236	26 635
Bonds, 6.5% (effective rate of 6.16%), maturing after the twentieth year following the fiscal year, (market value: \$4 559)	4 356	37 599
Public corporation common shares (market value: \$443 034)	387 712	418 842
	<u>\$896 821</u>	<u>\$888 642</u>

13. ACCOUNTS RECEIVABLE AND ACCRUED INTEREST

	2004	2003
Fondation du Musée national des beaux-arts du Québec, interest-free, no terms of repayment	\$261 725	\$245 933
Accrued interest	34 831	37 732
Taxes receivable	251 624	285 943
Other accounts	277 506	388 791
	<u>\$825 686</u>	<u>\$958 399</u>

14. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

Gouvernement du Québec subsidies receivable presented in the short term break down as follows:

	2004	2003
Interest receivable	\$780 496	\$807 934
Repayment of capital on the long-term debt to be made in next fiscal year	1 770 940	1 770 940
Other subsidies receivable	1 114 678	410 583
	<u>\$3 666 114</u>	<u>\$2 989 457</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

14. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE (cont'd)

Those presented as long-term break down as follows:

	2004	2003
Subsidies receivables for fixed assets and their maintenance	\$26 678 857	\$27 291 939
Repayment of capital on long-term debt to be made in next fiscal year	(1 770 940)	(1 770 940)
	<u>\$24 907 917</u>	<u>\$25 520 999</u>

15. FIXED ASSETS FUND – FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Land *	\$1 210 250		\$1 210 250	\$1 210 250
Buildings *	44 274 059	\$20 153 340	24 120 719	25 087 195
Building development	4 918 221	2 735 974	2 182 247	3 596 347
Outside development	434 614	298 712	135 902	274 457
Automotive equipment	71 157	26 847	44 310	50 687
Specialized equipment	1 412 972	609 677	803 295	388 777
Office furniture and equipment	271 693	118 995	152 698	140 757
Computer and office automation equipment	2 019 123	1 715 164	303 959	750 242
	<u>\$54 612 089</u>	<u>\$25 658 709</u>	<u>\$28 953 380</u>	<u>\$31 498 712</u>

* The Musée acquired these buildings from the Gouvernement du Québec in 1985 and 1988 for the price of \$1 each. They were recorded according to the municipal assessment for these years. Subsequently, the Government authorized various expansion projects and major repairs.

16. BANK BORROWINGS**Operating Fund**

The Gouvernement du Québec authorized the Musée, by Order-in-Council, to contract a credit line not to exceed \$1 500 000 for its operations. At March 31, 2004, the Musée had not contracted this borrowing.

The Gouvernement du Québec authorized the Musée, by Order-in-Council, to contract a credit line not to exceed \$175 000 for two permanent exhibitions. This borrowing maturing at April 30, 2004 bear interest at the prime rate.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

16. BANK BORROWINGS (cont'd)**Fixed Assets Fund**

The Gouvernement du Québec authorized the Musée to contract the following borrowings for fixed assets maintenance:

	2004	2003
Credit line payable on demand, authorized by Order-in-Council for a maximum of \$822 800 bearing interest at the prime rate, contracted May 1, 2003, maturing April 30, 2004	\$822 800	\$822 800
Credit line payable on demand, authorized by Order-in-Council for a maximum of \$705 200 bearing interest at the prime rate, contracted August 1, 2003, maturing July 31, 2004	705 200	705 200
Credit line payable on demand, authorized by Order-in-Council for a maximum of \$808 800 bearing interest at the prime rate, contracted August 1, 2003, maturing July 31, 2004	808 800	468 000
Credit line payable on demand, authorized by Order-in-Council for a maximum of \$1 313 700 bearing interest at the prime rate, contracted May 1, 2003, maturing April 30, 2004	1 110 819	
	<u>\$3 447 619</u>	<u>\$1 996 000</u>

The maximum amount authorized by the Gouvernement du Québec for bank borrowings for fixed assets maintenance totalled \$4 459 900 (2003: \$3 650 500).

17. DEFERRED CONTRIBUTIONS**Operating Fund**

The deferred contributions presented in the Operating Fund relate to amounts received and intended to cover principally the operating expenses that were not incurred for certain exhibitions beginning or extending into subsequent fiscal years. Changes in the Operating Fund balance under deferred contributions are as follows:

	2004	2003
Opening balance	\$589 183	\$825 669
Less the amount recorded as proceeds for the fiscal year	(451 033)	(887 548)
Plus the amount received for subsequent fiscal years	620 000	651 062
Closing balance	<u>\$758 150</u>	<u>\$589 183</u>
Breaking down as follows:		
Gouvernement du Québec	\$644 759	\$254 099
Gouvernement du Canada	83 391	145 084
Other deferred income	30 000	190 000
	<u>\$758 150</u>	<u>\$589 183</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

17. DEFERRED CONTRIBUTIONS (cont'd)**Fixed Assets Fund**

The deferred contributions presented in the Fixed Assets Fund relate to Gouvernement du Québec subsidies receivable for fixed assets and their maintenance. Changes in the Fixed Assets Fund balance for the fiscal year are as follows:

	2004	2003
Opening balance	\$30 218 519	\$30 304 174
Gouvernement du Québec subsidies	1 157 858	1 288 834
Long-term debt issue costs		171 670
Amortization of deferred contributions	(3 693 996)	(1 546 159)
Closing balance	<u>\$27 682 381</u>	<u>\$30 218 519</u>

18. FIXED ASSETS FUND – LONG-TERM DEBT

	2004	2003
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 6.261%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$1 430 584, maturing in April 2017	\$20 028 186	\$21 458 770
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 5.825%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$164 416 on the principal of the borrowing, maturing in December 2010	1 315 320	1 479 736
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 6.85%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$175 940, maturing in October 2007	<u>1 935 340</u>	<u>2 111 280</u>
	23 278 846	25 049 786
Instalments due within one year	<u>1 770 940</u>	<u>1 770 940</u>
	<u>\$21 507 906</u>	<u>\$23 278 846</u>

Principal payments on these borrowings are made annually out of subsidies provided for this purpose by the Gouvernement du Québec.

Payments of principal on the long-term debt for the next five fiscal years are as follows:

2005	\$1 770 940
2006	1 770 940
2007	1 770 940
2008	3 002 520
2009	1 595 000

19. CASH FLOWS

The Musée's cash comprises cash minus the bank overdraft.

Interest paid during the year totalled \$1 610 821 (2003: \$2 032 674).

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

20. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, the Musée is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Musée did not conclude any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

21. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Musée du Québec participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) or Civil Service Superannuation Plan (CSSP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Musée's contributions charged to the year-end statement amount to \$194 397 (2003: \$184 072) for the General Fund and \$6 175 (2003: \$5 403) for the Commercial Activities Fund. The Musée's liability towards these Government plans is restricted to its contributions as an employer.

Provision for vacation time and sick leave

	2004		2003	
	Vacation time	Sick leave	Vacation time	Sick leave
Opening balance	\$586 644	\$1 050 253	\$566 598	\$1 038 022
Charge for the year	475 462	121 127	453 744	100 726
Benefits paid during the year	(459 004)	(81 133)	(433 698)	(86 495)
Closing balance	<u>\$603 102</u>	<u>\$1 090 247</u>	<u>\$586 644</u>	<u>\$1 052 253</u>

22. FINANCIAL INSTRUMENTS**Investments**

The fair value of investments is presented in Note 12. The fair value of treasury bills and bonds is determined by discounting cash flows at future market interest rates for similar securities on the date of the financial statement. The fair value of investments in shares is established based on stock market closing rates.

Gouvernement du Québec subsidies receivable

At March 31, 2004, the fair value of the \$28 574 031 (2003: \$28 510 456) Gouvernement du Québec subsidy receivable (including its short-term portion) was \$30 833 301 (2003: \$30 017 411).

Long-term debt

At March 31, 2004, the fair value of the \$23 278 846 (2003: \$25 049 786) long-term debt was \$25 538 116 (2003: \$26 556 741), given the discounting of cash flows as market rates for securities whose maturity dates and interest rates are similar.

Current assets and liabilities

The fair value of short-term financial instruments equals their book value given that they mature in the near future.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd) March 31, 2004

23. COMMITMENTS

The Musée signed a long-term occupancy agreement with the Musée de la Civilisation ending June 27, 2023 for rental of spaces of the Réserve muséale de la Capitale nationale.

The rental expenditure for the fiscal year ending March 31, 2004 for these premises totalled \$124 766. Minimum future payments break down as follows:

2005	\$180 904
2006	180 904
2007	180 904
2008	180 904
2009	180 904
2010 and thereafter	2 577 882

24. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

MANAGEMENT'S REPORT for the year ended March 31, 2004

The financial statements of the Musée national des beaux-arts du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carries out audits periodically to ensure that the internal controls applied regularly by the Musée are appropriate and consistent.

The Musée recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Musée's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

John R. Porter
Executive Director

Marc Delaunay
Director, Administration and Communications

Québec, June 14, 2004

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Musée national des beaux-arts du Québec as at March 31, 2004 and the statements of income, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Musée management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, with the exception of the effects, indicated in the preceding paragraph, of the improper recording of the charges related to the sick leave and vacation time of Musée employees, these financial statements present fairly, in all material respects, the Musée's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 14, 2004

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS
(R.S.Q., c. O-2.1)

OPERATIONS AND SURPLUS
for the year ended June 30, 2003

	<u>2003</u>	<u>2002</u> (Note 3)
REVENUE		
Gouvernement du Québec contribution	\$17 335 995	\$16 555 819
Interest	<u>1 129</u>	<u>2 174</u>
	<u>17 337 124</u>	<u>16 557 993</u>
EXPENDITURE		
Income security benefits	16 134 395	15 413 419
Administrative expenses		
Salaries and fringe benefits	931 968	889 487
Travel	117 263	120 193
Rent	77 511	72 155
Professional fees	13 439	52 307
Supplies and equipment	30 269	22 622
Telephone and communications	16 953	16 050
Depreciation of fixed assets	<u>658</u>	<u> </u>
	1 188 061	1 172 814
	<u>17 322 456</u>	<u>16 586 233</u>
EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE	14 668	(28 240)
SURPLUS, BEGINNING OF YEAR	<u>43 876</u>	<u>72 116</u>
SURPLUS, END OF YEAR	<u>\$58 544</u>	<u>\$43 876</u>

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRISBALANCE SHEET
as at June 30, 2003

	<u>2003</u>	<u>2002</u> (Note 3)
ASSETS		
Current assets		
Cash (Note 4)	\$77 666	\$91 341
Accounts receivable (Note 5)	<u>2 326 778</u>	<u>1 635 374</u>
	2 404 444	1 726 715
Fixed assets (Note 6)	<u>240 295</u>	<u></u>
	<u>\$2 644 739</u>	<u>\$1 726 715</u>
 LIABILITIES		
Current liabilities		
Borrowing (Note 7)	\$125 488	
Accounts payable (Note 8)	2 294 284	\$1 682 839
Owed to Insurance Fund (Note 13)	<u>166 423</u>	<u></u>
	2 586 195	1 682 839
SURPLUS	<u>58 544</u>	<u>43 876</u>
	<u>\$2 644 739</u>	<u>\$1 726 715</u>
 COMMITMENTS (Note 9)		

On behalf of l'Office de la sécurité du revenu
des chasseurs et piégeurs cris,
Gérald Lemoyne
George Wapachee

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS

NOTES TO FINANCIAL STATEMENTS
June 30, 2003

1. CONSTITUTION, PURPOSE AND FUNDING

The Cree Hunters and Trappers Income Security Board, created pursuant to the Act respecting Cree Hunters and Trappers Income Security Board (R.S.Q., chapter O-2.1), is responsible for administering the income security program established under this Act for the purpose of providing the trappers and hunters with a guaranteed income; this program includes other measures aimed at encouraging beneficiaries to carry out harvesting activities as a way of life.

Benefits are paid to eligible beneficiary units according, among other things, to the time spent hunting, fishing and trapping and carrying out related activities.

The sums required to implement the aforementioned Act are paid out of the funds voted each year for such purpose by Parliament.

2. ACCOUNTING POLICIES

The Board's financial statements prepared by management in keeping with Canadian generally accepted accounting principles. These statements include amounts based on best judgments and estimates. The cash flow statement has not been presented, since it contains no additional information that would be useful for understanding cash flows during the year.

Administrative expenses assumed by the Gouvernement du Québec

The cost of certain support services assumed by the Gouvernement du Québec has not been included in the statement of operations and surplus.

Pension Plans

The accounting procedure used for defined contribution plans is applied to multiemployer government defined benefit plans, given that the Board lacks sufficient information to apply the accounting procedure for defined benefit plans.

Benefits

Benefits are posted when authorized and when the beneficiary meets the eligibility criteria, should there be any.

Fixed assets

Fixed assets are recorded at cost and amortized over their service life using the following method and rate:

	Method	Rate
Leasehold improvements	Straight-line method	7 years

Computer development was not amortized because it was not operational at year-end.

3. CHANGE IN ACCOUNTING POLICY

As of this year, the Board will record benefits on an accrual basis. Formerly they were recorded on a cash basis.

This change, applied retroactively, will increase the following financial statement items:

	2002
Accounts receivable	\$1 632 210
Accounts payable	1 632 210
Gouvernement du Québec contribution	90 560
Income security benefits	90 560

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2003**4. CASH**

Cash includes a sum of \$30 000 held in a trust account and allocated by resolution of the members of the Board to benefit payments including, among other things, advance payments and emergency payments where the usual cheque-issuing procedure would cause excessive delays for the beneficiary.

5. ACCOUNTS RECEIVABLE

	2003	2002
Ministère de l'Emploi, de la Solidarité sociale et de la Famille subsidy receivable	\$2 322 850	\$1 632 210
Other	3 928	3 164
	<u>\$2 326 778</u>	<u>\$1 635 374</u>

6. FIXED ASSETS

	2003		2002
	Cost	Accumulated depreciation	Net
Leasehold improvements	\$18 416	\$658	\$17 758
Computer development	222 537		222 537
	<u>\$240 953</u>	<u>\$658</u>	<u>\$240 295</u>

7. BORROWING

At June 30, 2003, the Board had a credit line of \$2 000 000 guaranteed by the Ministère de l'Emploi, de la Solidarité sociale et de la Famille until December 31, 2008. Amounts used bear interest at the average bank acceptance rate. At June 30, this rate was 3.53%.

8. ACCOUNTS PAYABLE

	2003	2002
Income security benefits	\$2 156 427	\$1 632 210
Suppliers	110 224	10 364
Salaries and fringe benefits	27 633	40 265
	<u>\$2 294 284</u>	<u>\$1 682 839</u>

9. COMMITMENTS

The Board is committed, under contracts for professional services, to develop its computer system until 2006.

The Board is also committed under long-term leases for administrative offices expiring on various dates between until 2010. In some cases, these leases include a five-year renewal option. Rental costs for the year ended June 30, 2003 for administrative offices totaled \$43 891.

Minimum future payments on these commitments are as follows:

2004	\$617 870
2005	513 566
2006 and thereafter	420 105
	<u>\$1 551 541</u>

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2003

10. PENSION PLANS

Board staff members participate in the Government and Public Employees Retirement Plan (RREGOP) and the Pension Plan of Management Personnel (PPMP). These are multiemployer defined benefit plans and include guaranteed payments upon retirement or death.

The Board's contributions charged to year-end statement amount to \$24 185 (2002: \$21 029). The Board's liability towards these Government plans is restricted to its contributions as an employer.

11. FINANCIAL INSTRUMENTS

The Board is not exposed to interest-rate risks on these financial liabilities given that interest is paid out of a Gouvernement du Québec operating subsidy.

The fair value of short-term financial instruments equals their book value based on their pending maturity date.

12. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Board is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by the Gouvernement du Québec. The Board did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

13. INSURANCE FUND

Complementary Agreement #15 amending Section 30 of the James Bay and Northern Québec Agreement came into effect on July 1, 2002. An insurance fund administered by the Board was created to fund sick leave and leave related to disasters. The Fund is financed by equal contributions from the Gouvernement du Québec and program beneficiaries. The Insurance Fund's assets are separate from the assets of the Board, which is responsible for reporting on Fund activities.

The Insurance Fund's results and financial position for the year ending June 30, 2003 is as follows:

Operations and surplus

Revenue	
Gouvernement du Québec contribution	\$169 111
Beneficiaries' contribution	169 111
	<u>338 222</u>
Expenditure	
Sick leave benefits	255 569
Disaster benefits	1 839
	<u>257 408</u>
Excess revenue over expenditure	<u>\$80 814</u>
Balance sheet	
Current assets	
Board account receivable	\$166 423
Gouvernement du Québec account receivable	169 111
	<u>\$335 534</u>
Liability	
Sick leave payable	\$254 720
Surplus	80 814
	<u>\$335 534</u>

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS**MANAGEMENT'S REPORT**

The financial statements of the Cree Hunters and Trappers Income Security Board were drawn-up by management, which is responsible for their preparation, presentation and the significant judgments and estimates included therein. This responsibility involved choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. The financial information contained in the rest of the annual report concurs with that shown in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Board recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the financial statements of the Board in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

On behalf of l'Office de la sécurité
du revenu des chasseurs et piégeurs cris,
George Wapachee

Québec, September 12, 2003

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Cree Hunters and Trappers Income Security Board as at June 30, 2003 and the statement of operations and surplus for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at June 30, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Doris Paradis, CA
Acting Auditor General of Québec

Québec, September 12, 2003

OFFICE DES PROFESSIONS DU QUÉBEC
(R.S.Q., c. C-26)

REVENUE AND EXPENDITURE AND DEFICIT
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Contributions from members of professional corporations	\$6 628 603	\$4 987 588
Interest on bank deposits	38 573	10 453
Fees for managing the Ordre des sages-femmes du Québec Fund (Note 8)	6 641	8 842
Other	<u>32 348</u>	<u>11 640</u>
	<u>6 706 165</u>	<u>5 018 523</u>
EXPENDITURE		
Administrative expenses		
Salaries and fringe benefits	2 865 859	2 917 943
Transportation and communications	124 587	115 755
Professional and administrative services	417 331	419 097
Rent and maintenance	285 083	274 096
Materials and supplies	59 833	62 689
Interest on advances from the Consolidated Revenue Fund	20 919	16 682
Depreciation of fixed assets	82 249	89 991
Amortization of cost of computer systems development	<u>35 730</u>	<u>39 251</u>
	3 891 591	3 935 504
Fees and reimbursements (Note 3)	<u>1 664 936</u>	<u>1 445 871</u>
	<u>5 556 527</u>	<u>5 381 375</u>
EXCESS REVENUE OVER EXPENDITURE	1 149 638	(362 852)
DEFICIT, BEGINNING OF YEAR	<u>2 123 985</u>	<u>1 761 133</u>
DEFICIT, END OF YEAR	<u><u>\$974 347</u></u>	<u><u>\$2 123 985</u></u>

OFFICE DES PROFESSIONS DU QUÉBECBALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$175 676	\$289 964
Accounts receivable	<u>291 027</u>	<u>175 866</u>
	466 703	465 830
Fixed assets (Note 4)	111 441	156 410
Cost of computer systems development (Note 5)	<u>183 426</u>	<u>121 141</u>
	<u>\$761 570</u>	<u>\$743 381</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$383 766	\$328 643
Owing to the Consolidated Revenue Fund (Note 6)	500 000	1 700 000
Sum owing to the Ordre des sages-femmes du Québec (Note 8)	<u>96 000</u>	<u>130 000</u>
	979 766	2 158 643
Provision for sick leave and vacation time (Note 7)	564 095	455 196
Sum owing to the Ordre des sages-femmes du Québec (Note 8)	<u>192 056</u>	<u>253 527</u>
	1 735 917	2 867 366
DEFICIT	<u>974 347</u>	<u>2 123 985</u>
	<u>\$761 570</u>	<u>\$743 381</u>

On behalf of the Office des professions du Québec,
Gaétan Lemoyne

OFFICE DES PROFESSIONS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

The Office des professions du Québec was established by the Professional Code (R.S.Q., c. C-26) for the purpose of ensuring that all professional corporations protect the public.

The Office answers to the Minister responsible for administering the legislation governing these professions designated by the Government. Its operations are financed out of the dues paid by members of professional corporations. These dues are collected by the professional corporations, which then remit them to the Office. The Professional Code stipulates that in calculating this contribution it shall be increased or decreased to reflect deficits or surpluses from previous fiscal years.

2. ACCOUNTING POLICIES

The financial statements of the Office were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The cash flow statement is not shown as it would not provide any useful additional information regarding the Office's cash flow during the year.

Fixed assets and cost of computer systems development

Fixed assets and computer systems development expenses are recorded at cost. They are depreciated over their estimated service lives on a straight-line basis at the following rates:

	Rates
Data processing equipment	33 1/3%
Telephone equipment	20%
Furniture	20%
Leasehold improvements	Duration of occupancy agreement
Cost of computer systems development	20%

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Office lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. FEES AND REIMBURSEMENTS

In accordance with the Professional Code, the Office assumes the following expenses:

- Fees or allowances paid to the chairs of the disciplinary boards of professional corporations. The amount of these fees or allowances is set by the Government. For grievances whose hearing began after November 7, 2002, fees can be paid at the request of the committee chair following the tabling of a decision awarded on a request for temporary strike-off, a decision involving blame or a fine and any other decision for which appeal has been granted or an application for judicial review tabled. For grievances whose hearing began before November 7, 2002, fees are paid when the grievance file is closed and after the board's decision has been transmitted to the corporation and received by the Office.
- Attendance allowances and the reimbursement of fees, within reason, incurred by the directors appointed by the Office to professional boards to represent the public.

These expenditures break down as follows:

	2004	2003
Chairs of disciplinary boards of professional corporations	\$1 292 968	\$1 069 495
Office-appointed directors	371 968	376 376
	<u>\$1 664 936</u>	<u>\$1 445 871</u>

OFFICE DES PROFESSIONS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

4. FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Data processing equipment	\$426 557	\$368 888	\$57 669	\$84 895
Telephone equipment	29 307	28 712	595	1 515
Furniture	104 605	59 841	44 764	50 845
Leasehold improvements	62 584	54 171	8 413	19 155
	<u>\$623 053</u>	<u>\$511 612</u>	<u>\$111 441</u>	<u>\$156 410</u>

Acquisitions for the year amount to \$29 491 (2003: \$64 808).

5. COST OF COMPUTER SYSTEMS DEVELOPMENT

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Computer systems development	<u>\$385 049</u>	<u>\$201 623</u>	<u>\$183 426</u>	<u>\$121 141</u>

Acquisitions for the year amount to \$98 015 (2003: \$44 977).

6. SUM OWING TO THE CONSOLIDATED REVENUE FUND

Interest on advances from the Consolidated Revenue Fund is calculated at the National Bank of Canada's prime rate in effect for the duration of these advances. The Office paid \$28 849 in interest during the fiscal year (2003: \$11 510).

7. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Office participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These interenterprise plans are defined-benefit plans and include guaranteed payments upon retirement and death.

The Office's contributions charged to the year-end statement amount to \$110 111 (2003: \$94 696). The liability of the Office towards these Government plans is restricted to its contributions as an employer.

OFFICE DES PROFESSIONS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**7. FUTURE FRINGE BENEFITS (cont'd)****Provision for sick leave and vacation time**

	2004	2003
Obligation for sick leave and vacation time	\$1 037 186	\$995 871
Transient unamortized obligation	(473 091)	(540 675)
	<u>\$564 095</u>	<u>\$455 196</u>
Charge for the year	<u>\$383 224</u>	<u>\$395 304</u>
Benefits paid during the year	<u>\$274 324</u>	<u>\$258 939</u>

8. SUM OWING TO THE ORDRE DES SAGES-FEMMES DU QUÉBEC

The sum owing to the Ordre des sages-femmes du Québec represents the balance of the fund managed by the Office des professions du Québec under the provisions of the Act respecting midwives (R.S.Q., chapter S-0.1). This \$1 000 000 fund originating from amounts reserved for funding pilot projects but not yet committed was created in order to allow the Ordre des sages-femmes du Québec to fulfil, during its first eight years of operations, all of its obligations under its incorporating legislation.

The Office must pay the Ordre des sages-femmes du Québec the sum established when the Fund was created, calculated by backward averaging.

The interest generated by the Fund is reinvested in it and management fees are paid to the Office from this interest.

Change in the Fund for the fiscal year ended March 31, 2004:

	2004	2003
Opening balance	\$383 527	\$457 888
Payments to the Ordre des sages-femmes du Québec	(96 000)	(74 000)
Interest generated	7 170	8 481
Management fees paid to the Office	(6 641)	(8 842)
Fund balance	<u>\$288 056</u>	<u>\$383 527</u>

The sum owing breaks down as follows:

Sum owing	\$288 056	\$383 527
Portion payable in the coming fiscal year	<u>96 000</u>	<u>130 000</u>
	<u>\$192 056</u>	<u>\$253 527</u>

The portion payable in the coming fiscal year is estimated using the estimates of the Ordre des sages-femmes du Québec.

OFFICE DES PROFESSIONS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

9. RELATED PARTY TRANSACTIONS

In addition to the transactions with the Consolidated Revenue Fund disclosed in its financial statements and recorded at exchange value, the Office is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Office did not carry out business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

10. FINANCIAL INSTRUMENTS**Fair value**

The fair value of short-term financial instruments is equivalent to their book value, given that they mature in the near future. The fair value of the sum owing to the Ordre des sages-femmes cannot be estimated, given the lack of markets for this type of debt.

OFFICE DES PROFESSIONS DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Office des professions du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Office des professions recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Office's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Gaétan Lemoyne
President

Christian Rény
General Manager of Administration

Québec, May 6, 2004

AUDITOR'S REPORT

To The National Assembly

I have audited the balance sheet of the Office des professions du Québec as at March 31, 2004 and the statement of revenue and expenditure and deficit for the year then ended. These financial statements are the responsibility of Office management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Office's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 6, 2004

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE
(R.S.Q., C-18)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Ministère des Relations internationales subsidy	\$2 000 000	\$2 000 000
Emploi-Québec subsidy	311 712	254 379
Fonds Jeunesse Québec (Note 3)	230 581	14 720
Interest on bank deposits	<u>25 787</u>	<u>29 836</u>
	<u>2 568 080</u>	<u>2 298 935</u>
 EXPENDITURE (Note 4)		
Programs and development	1 923 121	1 777 775
Communications	244 446	294 559
Administration	<u>344 025</u>	<u>371 336</u>
	<u>2 511 592</u>	<u>2 443 670</u>
 EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE	56 488	(144 735)
 SURPLUS, BEGINNING OF YEAR	<u>217 555</u>	<u>362 290</u>
 SURPLUS, END OF YEAR	<u><u>\$274 043</u></u>	<u><u>\$217 555</u></u>

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

BALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand (Note 12)	\$95 410	\$228 266
Term deposit, 2.4% maturing in May 2004	200 000	
Accounts receivable (Note 5)	87 330	64 340
Prepaid expenses	1 724	22 922
	<u>384 464</u>	<u>315 528</u>
Fixed assets (Note 6)	<u>139 781</u>	<u>197 403</u>
	<u>\$524 245</u>	<u>\$512 931</u>
LIABILITIES		
Current liabilities		
Accounts payable (Note 8)	\$250 202	\$271 491
Fonds Jeunesse Québec (Note 9)		3 408
Deferred revenue		20 477
	<u>250 202</u>	<u>295 376</u>
SURPLUS	<u>274 043</u>	<u>217 555</u>
	<u>\$524 245</u>	<u>\$512 931</u>

COMMITMENTS (Note 11)

On behalf of the Board of Directors,
Lucie Latulippe
President and Chief Executive Officer

Patrick Préfontaine
Vice-President

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE**CASH FLOWS**

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Excess (deficiency) revenue over expenditure	\$56 488	\$(144 735)
Items not affecting liquid assets:		
Depreciation of fixed assets	65 512	47 156
Loss on disposal of fixed assets	<u>2 636</u>	<u>421</u>
	124 636	(97 158)
Change in non-cash items linked to operations		
Accounts receivable	(22 990)	26 067
Prepaid expenses	21 198	(17 331)
Accounts payable	(21 289)	52 380
Fonds Jeunesse Québec	(3 408)	3 408
Deferred revenue	<u>(20 477)</u>	<u>20 477</u>
	(46 966)	85 001
Cash flows provided by (used for) operating activities	<u>77 670</u>	<u>(12 157)</u>
INVESTMENT ACTIVITIES		
Cash flows used for investment activities		
Acquisition of fixed assets	<u>(10 526)</u>	<u>(25 298)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	67 144	(37 455)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>228 266</u>	<u>265 721</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 12)	<u><u>\$295 410</u></u>	<u><u>\$228 266</u></u>

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

The Office was established under the Act respecting the Office Québec-Amériques pour la jeunesse, (R.S.Q., c. C-18). Its purpose is to develop relations between the youth of Québec and other American peoples, to increase the individual and group exchanges between them and to promote the development of cooperative networks

Under the Québec Taxation Act and the Canadian Income Tax Act, the Office is not subject to income tax.

2. ACCOUNTING POLICIES

The financial statements of the Office were prepared by management in keeping with the accounting principles that are generally recognized in Canada. These statements include amounts based on best judgements and estimates.

Fixed assets

Fixed assets are recorded at cost and amortized over their service life according to the straight-line method using the following rates:

Office furniture and equipment	20%
Leasehold improvements	10%
Data processing equipment	33 1/3%

Program expenses

Program expenses are recorded when authorized and when the beneficiaries have met the eligibility criteria, where applicable.

Cash and cash equivalents

The Office's policy consists in presenting under cash and cash equivalents bank balances and short-term investments that are easily convertible in the short term and a known amount of cash whose value should not change significantly.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Office lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. REVENUE - FONDS JEUNESSE

	2004	2003
Solidarité Québec-Chili		\$5 196
First work experience acquisition	\$33 911	9 524
Voilà Québec en Mexico	196 670	
	<u>\$230 581</u>	<u>\$14 720</u>

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

4. EXPENDITURE

	2004		2003
Programs			
Regular projects	\$830 907		\$865 856
Salaries and fringe benefits	501 017		509 840
Participation allowances - Emploi-Québec	263 603		197 600
Special projects	249 997		81 463
	<u>1 845 524</u>		<u>1 654 759</u>
Development			
Cost of travel outside Québec	21 442		38 008
Development missions - Emploi-Québec	19 772		33 654
Cost of travel within Québec	24 852		30 170
Special advisor			10 789
Event, membership and representation	11 531		10 395
	<u>77 597</u>		<u>123 016</u>
	1 923 121	76%	1 777 775 73%
Communications			
Salaries and fringe benefits	189 910		182 828
Promotional material	36 444		94 164
Advertising	15 323		10 811
Subscriptions and publications	2 769		6 756
	<u>244 446</u>	10%	294 559 12%
Administration			
Salaries and fringe benefits	155 330		186 909
Rent	63 125		63 125
Telecommunications	18 694		24 999
Operating costs	24 534		34 216
Mail and courier	5 190		6 781
Insurance	7 111		6 220
Board of administration expenses	1 893		1 509
Amortization of fixed assets	65 512		47 156
Loss on transfer of fixed assets	2 636		421
	<u>344 025</u>	14%	371 336 15%
	<u>\$2 511 592</u>		<u>\$2 443 670</u>

5. ACCOUNTS RECEIVABLE

	2004		2003
Emploi-Québec	\$66 712		\$29 379
Sales tax	1 722		1 753
Interest receivable	13 992		
Other	4 904		33 208
	<u>\$87 330</u>		<u>\$64 340</u>

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

6. FIXED ASSETS

	2004		2003
	Cost	Cumulated amortization	Net
Office furniture and equipment	\$80 661	\$53 720	\$26 941
Leasehold improvements	118 081	44 051	74 030
Data processing equipment	118 963	80 153	38 810
	<u>\$317 705</u>	<u>\$177 924</u>	<u>\$139 781</u>
			<u>\$197 403</u>

7. BANK OVERDRAFT

At March 31, 2004, the Office has a credit margin of \$200 000, renewable annually on June 30. The amounts used bear interest daily at the prime rate plus 0.75%.

The amount authorized was authorized, where applicable, based on the subsidies approved by the Gouvernement du Québec.

8. ACCOUNTS PAYABLE

	2004	2003
Ministère des Relations internationales	\$131 980	\$121 872
Suppliers	46 467	23 766
Salaries and at-source deductions	<u>71 755</u>	<u>125 853</u>
	<u>\$250 202</u>	<u>\$271 491</u>

9. FONDS JEUNESSE QUÉBEC

The Office acts as promoter for the Fonds Jeunesse Québec in the context of the Solidarité Québec-Chili project carried out jointly with Chantier Jeunesse. During the year, the Office paid the \$3 408 received for the Fonds.

10. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

11. COMMITMENTS

The Office is committed under a long-term lease ending in fiscal 2006 for administrative offices. This lease includes a five-year renewal option.

The rental expenditures for the year ending March 31, 2004 total \$63 125. Minimum future payments are as follows:

2005	\$63 125
2006	<u>31 563</u>
	<u>\$94 688</u>

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

12. CASH AND CASH EQUIVALENTS

	<u>2004</u>	<u>2003</u>
Cash on hand	\$95 410	\$228 266
Term deposit	<u>200 000</u>	
	<u>\$295 410</u>	<u>\$228 266</u>

13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, measured at exchange value, the Office is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Office did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

14. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Office participate in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Office's contributions charged to the year-end statement amount to \$17 744 (2003: \$17 378). The liability of the Office towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave

The Office reimburses days not used at March 31 every year in keeping with its regulation on the conditions of nomination, payment standards and pay scales. The charge for the fiscal year was \$16 972 (2003: \$20 055).

15. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE**MANAGEMENT'S REPORT**

The financial statements of the Office Québec-Amériques pour la jeunesse were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies and methods that comply with the accounting principles that are generally accepted in Canada.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Office recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Office's financial statements in keeping with the auditing standards that are generally accepted in Canada. His report states the nature and scope of this audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Lucie Latulippe
President and Chief Executive Officer

Québec, June 9, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheets of the l'Office Québec-Amériques pour la jeunesse as at March 31, 2004, the statement of revenue, expenditure and surplus and the cash flow statement for the year then ended. These financial statements are the responsibility of the Office's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Office's financial position as at March 31, 2004 and the results of the insurance funds' operations and cash flows for the year then ended, in accordance with accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the change in accounting policies disclosed in Note 4, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 9, 2004

RÉGIE DE L'ASSURANCE-DÉPÔTS DU QUÉBEC

(R.S.Q., c. A-26)

DEPOSIT INSURANCE FUND**REVENUE AND EXPENDITURE AND CUMULATED NET INCOME**
for the thirteen-month period ended January 31, 2004

	January 31, 2004 (13 months)	December 31, 2002 (12 months)
REVENUE		
Premiums	\$16 183 844	\$15 716 606
Investment income	11 750 385	11 817 178
Other	100	
	<u>27 934 329</u>	<u>27 533 784</u>
EXPENDITURE		
Administrative expenses (Note 3)	<u>997 903</u>	<u>976 609</u>
EXCESS REVENUE OVER EXPENDITURE BEFORE THE FOLLOWING ITEM:	26 936 426	26 557 175
Decrease in provision for losses (Note 5)		<u>141 771</u>
NET INCOME	26 936 426	26 698 946
CUMULATED NET INCOME, BEGINNING OF YEAR	<u>257 160 610</u>	<u>230 461 664</u>
CUMULATED NET INCOME, END OF YEAR	<u>\$284 097 036</u>	<u>\$257 160 610</u>

RÉGIE DE L'ASSURANCE-DÉPÔTS DU QUÉBEC**DEPOSIT INSURANCE FUND****BALANCE SHEET**
as at January 31, 2004

	January 31, 2004	December 31, 2002
ASSETS		
Cash on hand	\$936	\$1 091
Premiums receivable		178
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)	285 167 440	259 670 055
Claims related to repayment of guaranteed deposits (Note 5)	2 663	2 663
	<u>\$285 171 039</u>	<u>\$259 673 987</u>
LIABILITIES		
Accounts payable		
Inspector General of Financial Institutions		
- Administrative expenses	\$74 003	\$796 468
Taxes on premiums		706 552
Other		10 357
	<u>74 003</u>	<u>1 513 377</u>
NET EQUITY		
Gouvernement du Québec contribution	1 000 000	1 000 000
Cumulated net income	284 097 036	257 160 610
	<u>285 097 036</u>	<u>258 160 610</u>
	<u>\$285 171 039</u>	<u>\$259 673 987</u>

GUARANTEED DEPOSITS (Note 6)**SUBSEQUENT EVENT** (Note 9)

On behalf of the Board of Directors,
Jean St-Gelais
Linda Levasseur

RÉGIE DE L'ASSURANCE-DÉPÔTS DU QUÉBEC

DEPOSIT INSURANCE FUND

CASH FLOWS

for the thirteen-month period ended January 31, 2004

	January 31, 2004 (13 months)	December 31, 2002 (12 months)
OPERATING ACTIVITIES		
Net income	\$26 936 426	\$26 698 946
Adjustment for:		
Provision for losses		(141 771)
	<u>26 936 426</u>	<u>26 557 175</u>
Change in non-cash elements related to operations:		
Recovery of claims related to repayment of guaranteed deposits		148 345
Decrease in premiums receivable	178	18 745
(Decrease) increase in payables	<u>(1 439 374)</u>	<u>131 219</u>
	<u>(1 439 196)</u>	<u>298 309</u>
Cash flows provided by operating activities	<u>25 497 230</u>	<u>26 855 484</u>
INVESTMENT ACTIVITIES		
Cash flows used for investment activities:		
Funds entrusted to the Caisse de dépôt et placement du Québec	<u>(25 497 385)</u>	<u>(26 854 679)</u>
(DECREASE) INCREASE IN CASH POSITION	(155)	805
CASH POSITION, BEGINNING OF YEAR	<u>1 091</u>	<u>286</u>
CASH POSITION, END OF YEAR	<u>\$936</u>	<u>\$1 091</u>

RÉGIE DE L'ASSURANCE-DÉPÔTS DU QUÉBEC**DEPOSIT INSURANCE FUND****NOTES TO FINANCIAL STATEMENTS**
as at January 31, 2004**1. CONSTITUTION, PURPOSE AND FINANCING**

The Régie de l'assurance-dépôts du Québec (RADQ) was established under the Deposit Insurance Act (R.S.Q., c. A-26) to:

- govern the soliciting and receiving of deposits of money from the public;
- guarantee to every person who makes a deposit of money with a registered institution the payment of the principal and interest of such deposits on their respective maturity dates, up to \$60 000;
- manage a deposit insurance fund;
- administer a system of permits.

Under this Act:

- The Deposit Insurance Fund must be maintained for the purpose of discharging the RADQ's obligations under guarantees and for the exercise of certain powers. Premiums collected by the RADQ are paid into this fund, as are the amounts that the Minister of Finance may, when authorized by the Government and under conditions set by it, pay to the RADQ from time to time;
- When the resources of the RADQ are insufficient for the payment of its obligations or the exercise of its powers, the Minister of Finance, with the authorization of the Government and on conditions it determines, may make advances to the RADQ or guarantee payment of any commitment the latter may make. The total unpaid balance of such advances and guaranteed commitments must not exceed \$700 000 000.

2. ACCOUNTING POLICIES

The financial statements of the Deposit Insurance Fund of the RADQ were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Premiums

Premiums collected from institutions registered at December 31 are based on the amount of their guaranteed deposits as at April 30 of each year.

Allowance for losses

The allowance for losses on claims related to repayment of guaranteed deposits arises from the subrogation of depositors' rights and interests. The allowance for losses is determined on a case-by-case basis and is entered as soon as they can be evaluated with reasonable assurance. The annual change in this allowance is recorded in the statement of revenue and expenditure and cumulated net income.

Funds entrusted to the Caisse de dépôt et placement du Québec

Funds entrusted to the Caisse de dépôt et placement du Québec are recorded at acquisition cost.

3. ADMINISTRATIVE EXPENSES

	January 31, 2004 (13 months)	December 31, 2002 (12 months)
Salaries and fringe benefits	\$349 613	\$310 295
Examination fees *	316 308	292 834
Administrative support fees *	168 075	120 141
Other expenses	163 907	253 339
	<u>\$997 903</u>	<u>\$976 609</u>

* These fees are posted by the Inspector General of Financial Institutions.

RÉGIE DE L'ASSURANCE-DÉPÔTS DU QUÉBEC**DEPOSIT INSURANCE FUND**

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at January 31, 2004

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	January 31, 2004	December 31, 2002
Demand deposits ¹	\$1 128 995	\$8 770 953
Participation deposits ²	283 182 261	249 928 027
	<u>284 311 256</u>	<u>258 698 980</u>
Investment income receivable	<u>856 184</u>	<u>971 075</u>
	<u>\$285 167 440</u>	<u>\$259 670 055</u>

¹ Demand deposits bearing interest calculated on a daily basis at the market rate for one-day loans and investments.

² Participation deposits in a special fund with the Caisse de dépôt et placement du Québec expressed in units. These units are refundable with prior notice according to the regulations of the Caisse, at the market value of the equity level of the special fund at the end of each month. At January 31, 2004, the RADQ held 283 655 units (2002: 251 350).

5. CLAIMS RELATED TO REPAYMENT OF GUARANTEED DEPOSITS

	January 31, 2004	December 31, 2002
Claims receivable	<u>\$4 342 663</u>	<u>\$4 342 663</u>
Allowance for losses		
Opening balance	4 340 000	5 240 000
Charged to results		(141 771)
Write-off		<u>(758 229)</u>
Closing balance	<u>4 340 000</u>	<u>4 340 000</u>
	<u>\$2 663</u>	<u>\$2 663</u>

When the RADQ pays a deposit of money in the place and stead of an institution, it is subrogated in the rights of the depositor against the institution and RADQ claims from the institution the amount thus paid plus attendant interest.

6. GUARANTEED DEPOSITS

Deposits guaranteed as at April 30, 2003 amounted to \$56.2 billion (2002: \$54.2 billion), \$10.5 billion of which (2002: \$10.1 billion) was held by trust or savings companies incorporated under a federal statute and not required to pay a premium.

By virtue of an agreement reached with the Canada Deposit Insurance Corporation (CDIC), the latter will compensate the RADQ and release it from any liability resulting from a guarantee granted by the latter on deposits from a trust or savings company incorporated under a federal statute.

7. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Fund is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Fund did not carry out business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

RÉGIE DE L'ASSURANCE-DÉPÔTS DU QUÉBEC**DEPOSIT INSURANCE FUND**

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at January 31, 2004

7. RELATED PARTY TRANSACTIONS (cont'd)

The cost of certain fringe benefits paid from the appropriations of the various government departments and agencies is not shown in the statement of revenue and expenditure and cumulated net income.

8. FINANCIAL INSTRUMENTS

The market value of participation deposit unit in a special fund with the Caisse de dépôt et placement du Québec was \$296 162 587 at January 31, 2004 (December 31, 2002: \$257 943 869).

The fair value of claims for the repayment of guaranteed deposits is equivalent to the book value, given that the provision is reassessed on an annual basis.

The fair value of the other financial instruments is equivalent to the book value, given that they mature in the near future.

9. SUBSEQUENT EVENT

On December 11, 2002, the National Assembly passed the Act respecting the Agence nationale d'encadrement du secteur financier (S.Q. 2002, c. 45) creating the Agence nationale d'encadrement du secteur financier (hereafter referred to as the Autorité des marchés financiers). This Act provides for the Autorité des marchés financiers to replace the RADQ, to acquire its rights and assume its obligations on the date to be set by the government. This replacement took effect on February 1, 2004 under a Cabinet decision.

The Autorité des marchés financiers assumes the administration of the Deposit Insurance Fund.

Given this change, the RADQ'S fiscal year-end was changed from December 31 to January 31. Consequently, the present financial statements cover the thirteen-month fiscal period January 1, 2003 – January 31, 2004.

RÉGIE DE L'ASSURANCE-DÉPÔTS DU QUÉBEC

MANAGEMENT'S REPORT

The financial statements of the Deposit Insurance Fund of the Régie de l'assurance-dépôts du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

RADQ management recognizes that it is responsible for conducting the Deposit Insurance Fund's affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Fund's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Normand Côté
Assistant Director General

Jean St-Gelais
President and Chief Executive Officer

Québec, March 15, 2004

RÉGIE DE L'ASSURANCE-DÉPÔTS DU QUÉBEC

DEPOSIT INSURANCE FUND

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Deposit Insurance Fund of the Régie de l'assurance-dépôts du Québec (RADQ) as at January 31, 2004 and the statements of revenue and expenditure and cumulated net income and cash flows for the thirteen-month period then ended. These financial statements are the responsibility of RADQ management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fund's financial position as at January 31, 2004 and the results of its operations and cash flows for the thirteen-month period then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 15, 2004

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC
(R.S.Q., c. R-5)

PROGRAM COST AND FINANCING
for the year ended March 31
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
COST OF PROGRAMS (Note 3)		
Medical services (Note 4)	3 170 297	3 001 422
Prescription drugs and pharmaceutical services (Notes 4 and 5)	2 121 542	1 914 108
Hospital services (Note 6)	119 213	105 114
Technical aids	107 546	101 611
Dental services (Note 4)	87 369	130 574
Home care services	41 810	41 263
Optometry services (Note 4)	31 741	32 828
Other (Note 7)	22 584	9 501
	<u>5 702 102</u>	<u>5 336 421</u>
Amounts recovered from liable third parties and from foreign nationals for hospital care	5 850	4 593
	<u>5 696 252</u>	<u>5 331 828</u>
Administrative expenses (Note 8)	136 083	114 002
Loss on disposal of investment		3 708
	<u>5 832 335</u>	<u>5 449 538</u>
 SOURCES OF FINANCING		
Health Services Fund	3 307 810	3 532 025
Prescription Drug Insurance Fund (Note 9)	2 144 604	1 570 035
Gouvernement du Québec	267 185	244 175
Commission de la santé et de la sécurité du travail	78 427	73 421
Reciprocal agreements with other provinces (Note 6)	26 957	22 181
Other sources	7 352	7 701
	<u>5 832 335</u>	<u>5 449 538</u>

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

BALANCE SHEET
as at March 31
(in thousands of dollars)

	2004	2003
ASSETS		
Current assets (Note 10)		
Cash	21 814	
Contributions receivable		
Health Services Fund	37 023	324 853
Prescription Drug Insurance Fund	213 576	96 365
Fees to recovered (Note 11)	106 797	121 011
Other receivables	9 619	25 119
	<u>388 829</u>	<u>567 348</u>
Fixed assets (Note 12)	<u>35 547</u>	<u>33 171</u>
	<u><u>424 376</u></u>	<u><u>600 519</u></u>
LIABILITIES		
Current liabilities (Note 10)		
Outstanding bank papers	109 221	133 285
Services payable (Note 4)	264 709	415 624
Other accounts payable and accruals	13 554	15 622
Portion of long-term debt maturing within one year	922	1 308
	<u>388 406</u>	<u>565 839</u>
Provision for sick leave and vacation time (Note 15)	28 670	26 458
Long-term debt (Note 13)	<u>7 300</u>	<u>8 222</u>
	<u><u>424 376</u></u>	<u><u>600 519</u></u>
COMMITMENTS (Note 16)		

On behalf of the Régie,
 Pierre Roy, President and Chief Executive Officer
 Claude Gagnon, Member of the Board of Directors

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS**

March 31, 2004

(in thousands of dollars)

1. CONSTITUTION, PURPOSE AND FINANCING

A legal person within the meaning of the Civil Code, the Régie was established by the Act respecting the Régie de l'assurance maladie du Québec (R.S.Q., c. R-5) for the purpose of administering the health insurance plan and any other program entrusted to it by law or by the Government.

The Régie also administers the basic prescription drug insurance plan, as well as the health assistance program of the Ministère de l'Emploi, de la Solidarité sociale et de la Famille and parts of the programs of the Ministère de la Santé et des Services sociaux, including:

- the remuneration of resident physicians;
- the payment of hospital services rendered outside Québec;
- the tax exemption for home care services;
- the collection of amounts recoverable from liable third parties, residents of other provinces and foreign nationals for hospital care.

The Régie also pays for the professional services of physicians working under legislation administered by the Commission de la santé et de la sécurité du travail, which then reimburses the Régie.

The health insurance plan and the health assistance program are financed out of the Health Services Fund, which, until June 30, 2002, has also financed the cost of prescription drugs and pharmaceutical services provided under the basic prescription drug insurance plan to:

- persons aged 65 and over;
- employment-assistance recipients.

The Prescription Drug Insurance Fund finances the cost of prescription drugs and pharmaceutical services provided to:

- persons aged 65 and over, since July 1, 2002;
- employment-assistance, since July 1, 2002;
- any eligible person, other than those listed above, who do not have access to a group insurance plan or fringe benefits.

Finally, the Gouvernement du Québec finances the parts of programs entrusted to it by the Ministère de la Santé et des Services sociaux.

2. ACCOUNTING POLICIES

The financial statements of the Régie were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

The cash flow statement is not shown as it would not provide any useful supplementary information regarding the Régie's cash flow during the year. However, the most relevant information is provided in the notes to the financial statements.

Fixed assets

Fixed assets are recorded at acquisition cost.

The development of computer systems includes the cost of labour and professional services plus the related computer and office automation equipment.

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)

Fixed assets (cont'd)

The straight-line amortization method is used, taking into account the residual value of fixed assets, where applicable. Their service life has been established as follows:

Head office building	40 years
Building renovations	10 years
Computer systems development	5 to 7 years
Office furniture and equipment and automotive equipment	5 years
Computer and office automation equipment	3 to 5 years

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Régie lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Consequently, it applies the accounting procedure for defined-benefit plans to interenterprise government defined-benefit plans.

3. PROGRAM COSTS

The cost of goods and services, by program, breaks down as follows:

	2004	2003
Health insurance plan	3 236 007	3 075 128
Public basic prescription drug insurance plan	2 114 064	1 908 037
Health assistance	59 619	88 748
Other	286 562	259 915
	<u>5 696 252</u>	<u>5 331 828</u>

4. MEDICAL, DENTAL AND OPTOMETRY SERVICES AND PRESCRIPTION DRUGS AND PHARMACEUTICAL SERVICES

The following agreements with associations representing health professionals have expired. No provision for liabilities was made for rate changes that might be made when they are renewed.

	Expiry date
Association des chirurgiens dentistes du Québec	June 30, 2003
Quebec Association of Optometrists	June 30, 2003
Association québécoise des pharmaciens propriétaires	June 30, 2003
Fédération des médecins résidents du Québec	June 30, 2003

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
 March 31, 2004
 (in thousands of dollars)

5. PRESCRIPTION DRUGS AND PHARMACEUTICAL SERVICES

	2004	2003
Persons aged 65 and over	1 179 684	1 054 425
Employment-assistance recipients	485 799	440 259
Eligible persons who do not have access to a group insurance plan or fringe benefits	448 581	413 353
Persons eligible for special programs	7 478	6 071
	<u>2 121 542</u>	<u>1 914 108</u>

6. HOSPITAL SERVICES

	2004	2003
Hospital services provided to Québec residents outside the province	92 256	82 818
Hospital services provided in Québec to residents of other provinces	26 957	22 181
Radiation oncology services provided outside Québec		115
	<u>119 213</u>	<u>105 114</u>

7. OTHER

	2004	2003
Research grants	8 813	8 161
Assistance to persons infected with the hepatitis C virus	13 771	1 340
	<u>22 584</u>	<u>9 501</u>

8. ADMINISTRATIVE EXPENSES

	2004	2003
Salaries and fringe benefits	80 630	72 736
Depreciation of fixed assets	13 006	11 744
Office space, equipment and furniture	11 727	10 533
Information, telephone and messenger services	6 743	6 472
Interactive communications network	3 800	6 211
Professional and other services	3 436	3 418
Materials and supplies	2 274	2 175
Interest on long-term debt	667	713
	<u>122 283</u>	<u>114 002</u>
Preliminary Carte Santé du Québec project activities	<u>13 800</u>	
	<u>136 083</u>	<u>114 002</u>

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

9. DRUG INSURANCE FUND

	2004	2003
Persons aged 65 and over *	1 179 684	795 285
Employment-assistance recipients *	485 799	332 842
Participants	448 581	413 353
Administrative costs	30 540	28 555
	<u>2 144 604</u>	<u>1 570 035</u>

* Since July 1, 2002.

10. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

11. COSTS TO BE RECOVERED

	2004	2003
Gouvernement du Québec	79 339	96 660
Commission de la santé et de la sécurité du travail	20 322	17 072
Hospital services owing from other provinces	7 136	7 279
	<u>106 797</u>	<u>121 011</u>

12. FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Land	1 000		1 000	1 000
Head office building	17 537	9 536	8 001	8 300
Building renovations	2 998	150	2 848	
Computer systems development	59 569	45 558	14 011	16 724
Office furniture and equipment and automotive equipment	3 292	1 659	1 633	1 968
Computer and office automation equipment	15 635	7 581	8 054	5 179
	<u>100 031</u>	<u>64 484</u>	<u>35 547</u>	<u>33 171</u>

Acquisitions for the fiscal year necessitated expenditures of \$15.5 million (2003: \$12.1 million).

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
 March 31, 2004
 (in thousands of dollars)

13. LONG-TERM DEBT

	2004	2003
Borrowings on notes from the Financing Fund of the Gouvernement du Québec at fixed rates varying from 5.91% to 6.28%, maturing from 2004 to 2006	8 222	9 530
Portion maturing within one year	922	1 308
	<u>7 300</u>	<u>8 222</u>

Cash flows

Reimbursements	1 308	2 271
Interest paid	529	1 008

Assuming that the borrowings on notes are refinanced on the same terms, payments of principal for the next five fiscal years are as follows:

2005	922
2006	500
2007	500
2008	500
2009	500

The fair value of the long-term debt, obtained by discounting future cash flows, at the market interest rate for similar borrowings, corresponds to its book value.

14. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, the Régie is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Régie did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

15. FUTURE FRINGE BENEFITS**Pension plans**

Régie employees and salaried health care professionals participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) and Pension Plan of Management Personnel (PPMP). These are interemployer defined benefit plans and include guaranteed payments on retirement and death.

The Régie's contributions charged to the year-end statement amount to \$2.8 million (2003: \$2.4 million) for its employees and are included in administrative expenses. Contributions for salaried health care professionals amount to \$3.1 million (2003: \$3.0 million) and are included in the cost of programs under the items "medical services," "dental services" and "optometry services." The liability of the Régie towards these Government plans is restricted to its contributions for current service as an employer.

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

15. FUTURE FRINGE BENEFITS (cont'd)**Sick leave and vacation time**

	<u>2004</u>	<u>2003</u>
Opening balance	26 458	22 142
Net increase due to employees departures and arrivals	1 000	(235)
Expenditures	8 512	7 694
Fringe benefits for past years	3 244	3 244
Utilization	<u>(7 300)</u>	<u>(6 387)</u>
Closing balance	<u><u>28 670</u></u>	<u><u>26 458</u></u>

16. COMMITMENTS

As at March 31, 2004, the minimum contractual commitments related to the acquisition of goods and services under procurement contracts and to the rental of office space are as follows:

2005	10 645
2006	4 385
2007	2 650
2008	943
2009	<u>210</u>
	<u><u>18 833</u></u>

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**MANAGEMENT RESPONSIBILITY REGARDING FINANCIAL INFORMATION**

The financial statements of the Régie de l'assurance maladie du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility includes choosing appropriate accounting policies that respect the accounting principles that are generally accepted in Canada. It also involves guaranteeing that the financial information presented elsewhere in the annual report complies with that of the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls and has implemented an internal auditing program. This enables it to provide reasonable assurance that assets are safeguarded and that the accounting records constitute an adequate basis for objective, reliable financial statements that accurately represent the Régie's financial position and operations.

The Board of Directors is responsible for examining and approving the financial statements and for overseeing the manner in which management performs its financial reporting duties. The Board of Directors is assisted in carrying out its mandate by the Audit Committee.

The Régie recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Régie's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with management to discuss any matter related to the audit.

Pierre Roy
President and Chief Executive Officer

André Gignac
Director, Budget and
Financial Resources

Québec, May 28, 2004

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Régie de l'assurance maladie du Québec as at March 31, 2004 and the statements of program cost and financing for the year then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 28, 2004

RÉGIE DE L'ÉNERGIE
(R.S.Q., c. R-6.01)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004

	2004	2003
REVENUE		
Royalties – salaries and operations	\$8 399 220	\$8 544 908
Royalties – fixed assets (Note 7)	30 000	25 000
	8 429 220	8 569 908
Deferred contribution – fixed assets (Note 7)	122 158	148 187
Interest income	52 117	33 209
Fees and other	6 472	14 344
	8 609 967	8 765 648
EXPENDITURE		
Salaries and fringe benefits	6 078 139	5 733 661
Professional and administrative services	246 452	330 920
Rent to Société immobilière du Québec	976 536	946 021
Other operating expenses	680 204	632 835
Depreciation of fixed assets	152 158	173 187
Fixed assets held under capital leases		
Depreciation	72 121	85 526
Write-off of assets	101 653	
Interest on long-term debt	67 572	74 467
Reimbursement of expenses – hearing	(1 913)	(63 526)
	8 372 922	7 913 091
EXCESS REVENUE OVER EXPENDITURE	237 045	852 557
SURPLUS, BEGINNING OF YEAR	978 974	126 417
SURPLUS, END OF YEAR	\$1 216 019	\$978 974

RÉGIE DE L'ÉNERGIEBALANCE SHEET
as at March 31, 2004

	2004	2003
ASSETS		
Current assets		
Cash on hand	\$757 764	\$2 571 877
Banker's acceptance, rate of 2.17%, maturing in April 2004	2 395 440	
Accounts receivable	8 443	10 821
Prepaid expenses	45 421	34 186
	<u>3 207 068</u>	<u>2 616 884</u>
Fixed assets (Note 3)	<u>741 350</u>	<u>1 051 912</u>
	<u>\$3 948 418</u>	<u>\$3 668 796</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals (Note 4)	\$1 547 695	\$1 285 691
Short-term provision for sick leave (Note 5)	51 235	51 604
Current portion of long-term debt (Note 6)	83 325	88 778
	<u>1 682 255</u>	<u>1 426 073</u>
Provision for sick leave (Note 5)	150 052	158 174
Long-term debt owing to Société immobilière du Québec (Note 6)	680 106	763 431
Deferred contribution – fixed assets (Note 7)	<u>219 986</u>	<u>342 144</u>
	2 732 399	2 689 822
SURPLUS	<u>1 216 019</u>	<u>978 974</u>
	<u>\$3 948 418</u>	<u>\$3 668 796</u>

On behalf of the Régie,
Lise Lambert

RÉGIE DE L'ÉNERGIE**CASH FLOWS**

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Receipts – royalties – salaries and operations	\$8 401 954	\$8 808 775
Receipts – royalties and other revenue	8 689	12 972
Disbursements – salaries and fringe benefits	(5 915 130)	(5 682 804)
Disbursements – operations	(1 822 010)	(1 976 463)
Interest received	49 044	30 343
Interest paid	<u>(67 572)</u>	<u>(74 467)</u>
Cash flows provided by operating activities	<u>654 975</u>	<u>1 118 356</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(15 370)	(138 299)
Proceeds from disposal of fixed assets	<u>500</u>	<u>5 626</u>
Cash flows used for investment activities	<u>(14 870)</u>	<u>(132 673)</u>
FINANCING ACTIVITIES		
Reimbursements of long-term debt	(88 778)	(83 019)
Receipts – royalties – fixed assets	<u>30 000</u>	<u>25 000</u>
Cash flows used for financing activities	<u>(58 778)</u>	<u>(58 019)</u>
NET INCREASE	581 327	927 664
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2 571 877</u>	<u>1 644 213</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$3 153 204</u>	<u>\$2 571 877</u>

RÉGIE DE L'ÉNERGIE

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

The Régie is a quasi-judicial regulatory board established by the Act respecting the Régie de l'énergie (R.S.Q., c. R-6.01) and entrusted with decision-making, advisory and examination, superintending and investigative powers. Its authority and responsibilities cover, to varying degrees, all energy markets in Québec, i.e. electricity, natural gas, petroleum products and steam, and include activities related to supply, transport, distribution and storage.

The Régie must reconcile the public interest, consumer protection and fair treatment of electricity distributors and distributors.

Under the Canadian Income Tax Act and the Québec Taxation Act, the Régie is not subject to income tax.

2. ACCOUNTING POLICIES

The financial statements of the Régie were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Fixed assets

Fixed assets are recorded at cost and depreciated on a straight-line basis according to their estimated service lives, namely:

Computer system and data processing equipment	3 years
Furniture and equipment	5 years
Leasehold improvements	5 to 15 years

Revenue recording

Contributions are recorded according to the deferral method. Contributions for budgeted fixed asset expenditures are deferred and recognized as revenue over the same term as the depreciation of the fixed assets they are used to finance. Deferred contributions corresponding to cancelled fixed asset expenditures are recognized as revenue when they are cancelled by the Régie.

Contributions for budgeted operating expenses and salaries approved by the Government are recorded as revenue in the year for which they are approved.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Régie lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

The Régie's policy consists in presenting under cash and cash equivalents bank balances and bank acceptances that are convertible in the short term to a known amount of cash whose value is unlikely to change significantly.

RÉGIE DE L'ÉNERGIENOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**3. FIXED ASSETS**

	2004		2003
	Cost	Accumulated depreciation	Net
Computer system and data processing equipment	\$744 660	\$664 172	\$80 488
Furniture and equipment	296 379	262 911	33 468
Leasehold improvements	85 490	37 359	48 131
	<u>1 126 529</u>	<u>964 442</u>	<u>162 087</u>
Fixed assets held under capital leases			
Leasehold improvements	1 029 352	450 089	579 263
	<u>1 029 352</u>	<u>450 089</u>	<u>579 263</u>
	<u>\$2 155 881</u>	<u>\$1 414 531</u>	<u>\$741 350</u>
			<u>\$1 051 912</u>

4. ACCOUNTS PAYABLE AND ACCRUALS

	2004	2003
Accounts payable and accruals	\$330 532	\$240 028
Salaries and fringe benefits	781 770	654 415
Provision for vacation time	435 393	391 248
	<u>\$1 547 695</u>	<u>\$1 285 691</u>

5. FUTURE FRINGE BENEFITS**Provision for sick leave**

	2004	2003
Opening balance	\$209 778	\$304 665
Expenditure for the year	134 658	133 428
Benefits paid during the year	(143 149)	(228 315)
Closing balance	<u>201 287</u>	<u>209 778</u>
Short-term provision	(51 235)	(51 604)
	<u>\$150 052</u>	<u>\$158 174</u>

Pension Plans

The staff members of the Régie participate in the Government and Public Employees Retirement Plan (RREGOP) and Pension Plan for Management Personnel (PPMP). These are defined-benefit plans and include guaranteed payments upon retirement and death.

The Régie's contributions charged to the year-end expenditure, under the entry "Salaries and fringe benefits" amount to \$181 823 (2003: \$178 448). The Régie's liability towards this Government plan is restricted to its contributions as an employer.

RÉGIE DE L'ÉNERGIE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

6. LONG-TERM DEBT OWING TO SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

	<u>2004</u>	<u>2003</u>
Commitments under capital leases, from 6.3% to 9.3%, maturing from November 2005 to October 2012, repayable in monthly instalments of \$11 992	\$763 431	\$852 209
Instalments due within one year	<u>(83 325)</u>	<u>(88 778)</u>
	<u>\$680 106</u>	<u>\$763 431</u>

The minimum payments required on commitments under capital leases are as follows:

2005	\$143 901
2006	140 029
2007	132 285
2008	132 285
2009	132 285
2010 to 2013	<u>351 961</u>
	1 032 746
Interest included in the minimum payments required	<u>(269 315)</u>
	<u>\$763 431</u>

7. DEFERRED CONTRIBUTION - FIXED ASSETS

The item "Deferred contribution - fixed assets" represents contributions received in the form of royalties to finance the fixed asset expenditures included in the budget estimates approved by the Government. Discrepancies in the balance of these contributions for the fiscal year are as follows:

	<u>2004</u>	<u>2003</u>
Opening balance	<u>\$342 144</u>	<u>\$492 224</u>
Projected fixed asset expenditures	30 000	25 000
Amortization of deferred contribution for the year	<u>(152 158)</u>	<u>(173 187)</u>
Deferred contribution – fixed assets	<u>(122 158)</u>	<u>(148 187)</u>
Disposal of fixed assets	<u></u>	<u>(1 893)</u>
Net contribution for the year	<u>(122 158)</u>	<u>(150 080)</u>
Closing balance	<u>\$219 986</u>	<u>\$342 144</u>

Fixed assets acquired under capital lease contracts are not included in fixed asset expenditures and, therefore, are not included in the item "Deferred contribution - fixed assets".

RÉGIE DE L'ÉNERGIE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

8. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, the Régie is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Régie did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

9. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

RÉGIE DE L'ÉNERGIE

ADDITIONAL INFORMATION
for the year ended March 31, 2004

SEGMENTED INFORMATION

	2004			
	Electricity	Natural gas	Petroleum products	Total
REVENUE				
Royalties				
Salaries and operations	\$6 727 065	\$845 830	\$826 325	\$8 399 220
Fixed assets	21 990	5 075	2 935	30 000
	<u>6 749 055</u>	<u>850 905</u>	<u>829 260</u>	<u>8 429 220</u>
Deferred contribution – fixed assets	94 898	22 937	4 323	122 158
Interest income	40 036	9 595	2 486	52 117
Fees and other	5 439	1 026	7	6 472
	<u>6 889 428</u>	<u>884 463</u>	<u>836 076</u>	<u>8 609 967</u>
EXPENDITURE				
Salaries and fringe benefits	4 684 688	1 099 828	293 623	6 078 139
Professional services	167 713	59 971	18 768	246 452
Rent to Société immobilière du Québec	750 277	179 699	46 560	976 536
Other operating expenses	523 209	114 569	42 426	680 204
Depreciation of fixed assets	116 888	28 012	7 258	152 158
Fixed assets held under capital leases				
Depreciation	55 404	13 277	3 440	72 121
Write-off of assets	68 994	16 532	16 127	101 653
Interest on the long-term debt	51 774	12 514	3 284	67 572
Reimbursement of expenses – hearing	(22 158)	(5 356)	25 601	(1 913)
	<u>6 396 789</u>	<u>1 519 046</u>	<u>457 087</u>	<u>8 372 922</u>
EXCESS REVENUE OVER EXPENDITURE (EXPENDITURE OVER REVENUE)	492 639	(634 583)	378 989	237 045
SURPLUS (DEFICIT), BEGINNING OF YEAR	(216 144)	811 510	383 608	978 974
SURPLUS, END OF YEAR	<u>\$276 495</u>	<u>\$176 927</u>	<u>\$762 597</u>	<u>\$1 216 019</u>

RÉGIE DE L'ÉNERGIE

ADDITIONAL INFORMATION
for the year ended March 31, 2004

SEGMENTED INFORMATION

	2003			
	Electricity	Natural gas	Petroleum products	Total
REVENUE				
Royalties				
Salaries and operations	\$5 968 040	\$1 248 366	\$1 328 502	\$8 544 908
Fixed assets	16 789	5 777	2 434	25 000
	<u>5 984 829</u>	<u>1 254 143</u>	<u>1 330 936</u>	<u>8 569 908</u>
Deferred contribution –fixed assets	114 655	23 070	10 462	148 187
Interest income	25 204	5 532	2 473	33 209
Fees and other	11 260	1 487	1 597	14 344
	<u>6 135 948</u>	<u>1 284 232</u>	<u>1 345 468</u>	<u>8 765 648</u>
EXPENDITURE				
Salaries and fringe benefits	4 372 485	928 017	433 159	5 733 661
Professional and administrative services	229 212	80 514	21 194	330 920
Rent to Société immobilière du Québec	718 043	157 549	70 429	946 021
Other operating expenses	464 654	94 830	73 351	632 835
Depreciation of fixed assets	131 444	28 847	12 896	173 187
Depreciation of fixed assets held under capital leases	64 912	14 246	6 368	85 526
Interest on long term debt	56 518	12 404	5 545	74 467
Reimbursement of expenses – hearing	21 949	4 817	(90 292)	(63 526)
	<u>6 059 217</u>	<u>1 321 224</u>	<u>532 650</u>	<u>7 913 091</u>
EXCESS REVENUE OVER EXPENDITURE (EXPENDITURE OVER REVENUE)	76 731	(36 992)	812 818	852 557
SURPLUS (DEFICIT), BEGINNING OF YEAR	<u>(292 875)</u>	<u>848 502</u>	<u>(429 210)</u>	<u>126 417</u>
SURPLUS (DEFICIT), END OF YEAR	<u>\$(216 144)</u>	<u>\$811 510</u>	<u>\$383 608</u>	<u>\$978 974</u>

RÉGIE DE L'ÉNERGIE**MANAGEMENT'S REPORT**

The financial statements of the Régie de l'énergie were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Régie recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Régie's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with management to discuss any element concerning his audit.

Lise Lambert
President

Montréal, May 27, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Régie de l'énergie as at March 31, 2004, the statement of revenue and expenditure and surplus and the statement of cash flow and additional information for the year then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements and the additional information are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the overall presentation of the financial statements and additional information.

In my opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at March 31, 2004 and the results of its operations and cash flow for the year then ended, in accordance with generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01) I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 27, 2004

RÉGIE DES INSTALLATIONS OLYMPIQUES

(R.S.Q., c. R-7)

REVENUE FUND**EARNINGS**

for the year ended October 31, 2003

(in thousands of dollars)

	2003	2002
REVENUE		
Gouvernement du Québec subsidy (Note 4)	22 362	22 065
Sports and tourist installations and special events		
Entrance fees	3 845	4 479
Rent	1 563	2 029
Advertising	400	401
Parking	3 072	3 750
Souvenirs	460	716
Concession fees	1 088	1 241
Rental of commercial and office spaces	1 528	1 479
Recovery of cost of energy supplied to third parties	3 970	3 973
Work and services billed to third parties	984	1 114
Other	564	212
	39 836	41 459
EXPENSES		
Salaries		
Regular employees	8 671	8 071
Casual employees	2 793	3 088
Employee benefits	1 674	1 666
Pension fund contributions	336	332
Employment termination costs	328	481
Service contracts	4 332	3 786
Equipment rental and materials	1 744	1 487
Products for resale	231	363
Energy	7 395	6 510
Water and service tax and insurance	2 637	4 571
Professional fees	1 043	1 924
Rights, commissions and fees	349	315
Financial expenses		
Interest on short-term loan	228	206
Interest on long-term debt	779	794
Stationery, printing, telecommunications	483	534
Advertising	848	1 078
Doubtful accounts	195	154
Other	330	605
Depreciation of fixed assets	3 189	3 436
Depreciation of deferred subsidy	(179)	
Loss on write-off of deferred expenses		622
	37 406	40 023
EXCESS PROCEEDS COMPARED TO CHARGES		
BEFORE OTHER ITEM	2 430	1 436
Other item		
Costs incurred as a result of the January 18, 1999 incident	271	518
Reimbursement of water and service tax for past fiscal years	(4 517)	
	(4 246)	518
EXCESS (INSUFFICIENT) PROCEEDS COMPARED TO CHARGES	6 676	918

The accompanying notes are an integral part of the financial statements.

RÉGIE DES INSTALLATIONS OLYMPIQUES

REVENUE FUND

OPERATING SURPLUS – APPROPRIATED SURPLUS

for the year ended October 31, 2003

(in thousands of dollars)

	2003					2002	
	Appropriated						
	New product and market develop- ment	Install- ation mainte- nance program	Data processing master plan Phase II	Upgrading media facilities	Total	Operations	Total
SURPLUS BEGINNING OF YEAR	402	100			502	1 752	2 254
Excess proceeds compared to charges						6 676	6 676
Balance available for investments	402	100			502	8 428	8 930
SURPLUS, BEGINNING OF YEAR	252	114	19	3	388		388
Fixed assets Transfers from operating surplus	(46)	(56)	(19)	(3)	(124)	124	
Amortized balance	206	58			264	124	388
SURPLUS, END OF YEAR	608	158			766	8 552	9 318

The accompanying notes are an integral part of the financial statements.

RÉGIE DES INSTALLATIONS OLYMPIQUES**REVENUE FUND****CASH FLOWS**

for the year ended October 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
OPERATING ACTIVITIES		
Excess proceeds compared to charges	6 676	918
Non-cash items		
Loss on disposal of fixed assets		18
Loss on write-off of deferred expenses		622
Depreciation of fixed assets	3 189	3 436
Depreciation of deferred subsidy	(179)	
Changes in other assets and liabilities (Note 5)	<u>5 281</u>	<u>1 639</u>
Net cash generated	<u>14 967</u>	<u>6 633</u>
INVESTING ACTIVITIES		
Bank acceptances	(8 982)	
Fixed assets	(7 252)	(2 920)
Disposal of fixed assets		<u>5</u>
Net cash used	<u>(16 234)</u>	<u>(2 915)</u>
FINANCING ACTIVITIES		
Bank loan	(1 096)	(3 199)
Long-term loan	15 000	
Repayment of borrowings	<u>(11 000)</u>	
Net cash generated (used)	<u>2 904</u>	<u>(3 199)</u>
INCREASE IN CASH	1 637	519
CASH (BANK OVERDRAFT), BEGINNING OF YEAR	<u>7</u>	<u>(512)</u>
CASH (BANK OVERDRAFT), END OF YEAR	<u><u>1 644</u></u>	<u><u>7</u></u>

The accompanying notes are an integral part of the financial statements.

RÉGIE DES INSTALLATIONS OLYMPIQUES

REVENUE FUND

BALANCE SHEET
as at October 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash	1 644	7
Bank acceptances, 2.75%, maturing in November and December 2003	8 982	
Accounts receivable	8 234	1 567
Inventory	1 087	1 027
Prepaid expenses	552	833
Fixed assets (Note 6)	<u>28 446</u>	<u>24 383</u>
	<u>48 945</u>	<u>27 817</u>
LIABILITIES		
Bank loan (Note 7)		1 096
Accounts and accrued expenses	10 398	8 365
Deferred grants (Notes 4 and 8)	10 229	714
Long-term debt (Note 9)	<u>19 000</u>	<u>15 000</u>
	<u>39 627</u>	<u>25 175</u>
SURPLUS		
Operating surplus	766	890
Appropriated surplus	<u>8 552</u>	<u>1 752</u>
	<u>9 318</u>	<u>2 642</u>
	<u>48 945</u>	<u>27 817</u>

The accompanying notes are an integral part of the financial statements.

On behalf of the Board,
Guy Marion, Director
Michel P. Lamontagne, Director

RÉGIE DES INSTALLATIONS OLYMPIQUES**CONSTRUCTION FUND****CASH FLOWS**

for the year ended October 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
INVESTING ACTIVITIES		
Construction disbursements and net cash generated (used)	<u>1 636</u>	<u>(155)</u>
FINANCING ACTIVITIES		
Contributions received from the Special Olympic Fund	58 736	62 883
Net repayment of long-term loans	<u>(60 500)</u>	<u>(62 883)</u>
Net cash used	<u>(1 764)</u>	
DECREASE IN CASH	(128)	(155)
CASH, BEGINNING OF YEAR	<u>120</u>	<u>275</u>
CASH (BANK OVERDRAFT), END OF YEAR	<u><u>(8)</u></u>	<u><u>120</u></u>

The accompanying notes are an integral part of the financial statements.

RÉGIE DES INSTALLATIONS OLYMPIQUES**CONSTRUCTION FUND**

BALANCE SHEET
as at October 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Construction cost of the installations (Note 10)	1 475 091	1 476 834
Expenses to be assumed by the Special Olympic Fund (Note 11)	121 007	123 289
Contributions received (Note 12)	<u>(1 402 168)</u>	<u>(1 343 432)</u>
	193 930	256 691
Other assets		
Cash		<u>120</u>
	<u>193 930</u>	<u>256 811</u>
LIABILITIES		
Bank overdraft	8	
Long-term debt (Note 9)	189 253	249 753
Accounts and commitments payable and accrued expenses	119	226
Accrued interest	<u>4 550</u>	<u>6 832</u>
	<u>193 930</u>	<u>256 811</u>

The accompanying notes are an integral part of the financial statements.

On behalf of the Board,
Guy Marion, Director
Michel P. Lamontagne, Director

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS

as at October 31, 2003

(in thousands of dollars)

1. GOVERNING STATUTES AND NATURE OF OPERATIONS

The Régie des installations olympiques (the Régie) is a mandatory corporation of the Gouvernement du Québec, incorporated by legislation adopted by the Gouvernement du Québec, the Act respecting the Régie des installations olympiques.

The Régie is the owner of some movable and immovable installations provided for the Games of the 21st Olympiad and was mandated to complete the construction and layout of the aforesaid installations as well as to operate them.

The Régie's revenue must be used primarily for its operations. Any excess funds are to be used for the repayment of loans, advances or other obligations of the Régie concerning the completion of the Olympic installations. As soon as the above-mentioned loans and advances are paid and other obligations carried out, the Olympic installations will become the property of the City of Montréal.

The Régie's activities are divided into four primary areas: leasing of commercial premises, offices and sports facilities, production of events, tourism and social.

A significant portion of the Régie's operating budget derives from its social activities, including use of the sports facilities by the general public and for training for elite competitions.

Moreover, the Régie provides on-going support to organizations located in the Hochelaga-Maisonneuve area and East-end Montréal.

2. ASSOCIATED ORGANIZATION

The Special Olympic Fund was constituted by the Act to establish a Special Olympic Fund. This Fund was created to collect from the Minister of Revenue a portion of the special tax on tobacco, the proceeds from the sale of the fixed assets of the Régie's Construction Fund and, formerly, the net receipts reserved for Québec from Loto-Canada.

Managed by the Minister of Finance of Québec, this Special Fund is to be used solely to repay the Régie's loans and related interest and for the completion costs of the Olympic installations.

3. ACCOUNTING PRINCIPLES

The financial statements were prepared in accordance with accounting principles that are generally accepted in Canada or according to certain practices allowed in public or quasi-public organizations. The principal practices are listed below.

Accounting estimates

The preparation of financial statements in accordance the accounting principles that are generally accepted in Canada requires Régie management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to the financial statements. These estimates are based on management's best knowledge of current events and actions that the Régie may undertake in the future. Actual results may differ from those estimates.

Expenses charged from the Revenue Fund to the Construction Fund

Since 1997, the Régie has not charged any direct or indirect administrative expenses related to the completion of the installations to the Construction Fund.

Income taxes

Since the Régie is a mandatory corporation of the Gouvernement du Québec, it is not subject to income tax.

Taxes

The Régie is subject to the water and service tax but not to the property taxes levied by the City of Montréal.

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at October 31, 2003
(in thousands of dollars)

3. ACCOUNTING PRINCIPLES (cont'd)

Claims

The Régie records claims against third parties only upon receipt of payment.

Provisions have been made for the lawsuits and claims against the Régie for which the outcome is foreseeable.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined by the average cost method.

Depreciation

Capital assets acquired for operating purposes are depreciated over their estimated service lives according to the straight-line method and the following annual rates and period:

Equipment	10%, 20% and 33.33%
Structure and specific improvements	5%, 6.67%, 10% and 20%
Leasehold improvements	Term of the Régie tenant's lease for spaces
Automotive equipment	6.67%, 10%, 20% and 26.33%

The deferred subsidy is amortized at the same rate as the fixed assets to which it is related.

Construction cost of the installations

Excluding the land on which the Olympic installations are built, the cost includes construction, administrative and financing costs and all long-term debt issuing expenses incurred since the beginning. The cost of machinery and equipment used during the construction period has also been charged to the construction cost of the installations.

Disposal of assets

When installations accounted for in the Construction Fund are disposed of, their cost and the corresponding contributions are not written off. However, the proceeds from the disposal of fixed assets are remitted to the Special Olympic Fund in accordance with the legislation governing the Fund (see Note 10).

Contributions received

The Régie's policy is not to charge to its operating revenue the depreciation of the construction cost of the Olympic Park and Olympic Village installations, which is reduced by contributions received.

In addition to direct contributions received from associated organizations, contributions received include those received from the Special Olympic Fund for the repayment of debt and for the completion costs not financed by long-term loans.

Contributions received exclude interest on the long-term debt and on short-term loans and possible additional disbursements resulting from the fluctuation of exchange rates at the time of the repayment of debts in foreign currency which are assumed directly by the Special Olympic Fund.

Foreign currency translation

The long-term debt of the Construction Fund includes loans payable in US currency. These loans are translated into Canadian dollars using the exchange rate of 1.3598 established in accordance with the currency and interest-rate swap arrangement entered into with the Consolidated Fund of the province of Québec on October 31, 1995.

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at October 31, 2003
(in thousands of dollars)

4. GOUVERNEMENT DU QUÉBEC SUBSIDIES

The Régie was awarded a subsidy, determined using budgetary forecasts, as financial assistance to offset the deficit.

The Régie also obtained a subsidy of \$10 000 000 to carry out the fixed assets plan (see Note 8).

5. INFORMATION INCLUDED IN THE CASH FLOW STATEMENT

The changes in other assets and liabilities are detailed as follows:

	2003	2002
Accounts receivable	(6 667)	(172)
Inventory	(60)	105
Prepaid expenses	281	(35)
Accounts and commitments payable and accrued expenses	2 033	1 750
Deferred grant	9 694	(9)
	<u>5 281</u>	<u>1 639</u>

6. FIXED ASSETS

	2003		
	Cost	Accumulated depreciation	Net
Equipment	13 751	12 707	1 044
Structure and specific improvements	53 982	27 149	26 833
Leasehold improvements	5 994	5 671	323
Automotive equipment	1 917	1 671	246
	<u>75 644</u>	<u>47 198</u>	<u>28 446</u>

	2002		
	Cost	Accumulated depreciation	Net
Equipment	12 983	12 409	574
Structure and specific improvements	47 586	24 685	22 901
Leasehold improvements	5 994	5 356	638
Automotive equipment	1 846	1 576	270
	<u>68 409</u>	<u>44 026</u>	<u>24 383</u>

7. BANK LOAN

The Régie has a line of credit for a maximum amount of \$15 000 000 bearing interest at the lender's base rate and renewable in June 2004.

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at October 31, 2003
(in thousands of dollars)

8. DEFERRED SUBSIDIES

	2003	2002
Subsidy – Revenue Fund		
Opening balance	714	723
Amount cashed during fiscal year	22 056	22 056
	22 770	22 779
Amount recorded as proceeds	22 362	22 065
	408	714
Subsidy – Fixed assets plan		
Amount cashed during fiscal year	10 000	
Amortization for fiscal year	(179)	
	9 821	
Closing balance	10 229	714

9. LONG-TERM DEBT

	2003	2002
Revenue Fund		
Promissory notes issued to the Financing Fund of the Ministère des Finances		
4.152%, maturing in March 2007	15 000	
5.333%, maturing in May 2007	4 000	5 000
2.84857%		10 000
	19 000	15 000

The instalments on long-term debt to be made by the Revenue Fund in the coming fiscal years total \$4 750 000 in 2004, 2005, 2006 and 2007.

	2003	2002
Construction Fund		
Promissory notes issued to the Financing Fund of the Ministère des Finances		
US\$77 036 000, 8.052%, maturing on December 1, 2003 ^{a, b}	104 753	104 753
2.751%, maturing on January 26, 2004	10 500	
2.750%, maturing on February 23, 2004	5 500	
2.750%, maturing on March 29, 2004	6 000	
2.750%, maturing on April 26, 2004	5 500	
2.768%, maturing on May 31, 2004	7 000	
4.38%, maturing on November 10, 2004	50 000	50 000
2.84857%		12 500
2.88835%		12 500
6.68%		25 000
6.75%		20 000
6.763%		25 000
	189 253	249 753

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at October 31, 2003
(in thousands of dollars)

9. LONG-TERM DEBT (cont'd)

Construction Fund (cont'd)

- a The Régie hedged the exchange risk on its foreign currency loans using a currency and interest-rate swap arrangement entered into with the Consolidated Fund of the province of Québec on October 31, 1995.
- b After the end of the fiscal year, the Régie refinanced this debt, whose repayments expire in the next fiscal next.

The instalments on the long-term debt to be paid by the Construction Fund for the coming years are \$139 253 000 in 2004 and \$50 000 000 in 2005.

10. CONSTRUCTION COST OF THE INSTALLATIONS

	2003	2002
Installations used by the Régie		
Olympic Park		
Opening balance	1 205 009	1 204 972
Construction cost for the year		
New roof	(1 766)	39
Other work		(2)
Closing balance	1 203 243	1 205 009
Capitalized interest on long-term debt	16 160	16 160
	1 219 403	1 221 169
Installations disposed of		
Vélodrome ^a	82 804	82 804
Biodôme ^a	50 364	50 341
	133 168	133 145
Olympic Village ^b	122 520	122 520
	1 475 091	1 476 834

- a In 1994 and in accordance with the agreement signed with the City of Montréal, the Régie transferred ownership of the Biodôme to the City for no consideration. The cost relating to ownership of this property represents \$133 168 000, i.e. \$82 804 000 relating to the Vélodrome and \$50 364 000 relating to the Biodôme (see Note 3).
- b The Olympic Village was sold on April 14, 1998 to a private enterprise further to a call for tenders. The accounting treatment of the disposal of the Village is consistent with the accounting policy for the disposal of assets set out in Note 3.

11. EXPENSES TO BE ASSUMED BY THE SPECIAL OLYMPIC FUND

	2003	2002
Interest paid on loan refinancing	19 486	19 486
Accrued interest on loans	4 550	6 832
Deferred exchange losses on long-term debt in foreign currency	96 971	96 971
	121 007	123 289

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at October 31, 2003
(in thousands of dollars)

12. CONTRIBUTIONS RECEIVED

	2003	2002
Special Olympic Fund	1 140 157	1 081 421
Olympic Games Organizing Committee	191 362	193 362
City of Montréal	70 649	70 649
	<u>1 402 168</u>	<u>1 345 432</u>

13. FINANCIAL INSTRUMENTS

The following methods and assumptions were used to determine the estimated fair value of each category of financial instrument.

Short-term financial instruments

Cash, bank acceptances, accounts payable, bank borrowings, accounts receivable and accrued expenses are financial instruments whose fair value is close to their book, given that they mature in the near future.

Long-term debt

The fair value of the Construction Fund's long-term debt equals the book value, given that most of the borrowings mature in the next fiscal year.

The fair value of the Revenue Fund's long-term debt is approximately \$17 451 000. To establish this fair value, the Corporation capitalized future cash flows envisaged under the rates agreement of which the Corporation might avail itself on the date of the financial statements for borrowings involving similar conditions and deadlines.

14. CONTINGENCIES

Lawsuits and claims have been instituted by or against the Régie. As at October 31, 2003, unsettled lawsuits and claims pending against the Régie total approximately \$22 700 000 (\$36 800 000 in 2002).

Of this amount, claims totalling \$20 200 000 (\$21 700 000 in 2002) have been submitted to our insurance companies concerning the incident that occurred on January 18, 1999. It is currently impossible to determine the financial impact that may arise from this incident.

Based on an analysis of claims for which the outcome is foreseeable, an assessment appears to indicate that the provisions recorded are sufficient for all such lawsuits and claims.

RÉGIE DES INSTALLATIONS OLYMPIQUES**AUDITORS' REPORT**

To the Minister responsible for the
Régie des installations olympiques

We have audited the balance sheets of the Revenue Fund and the Construction Fund of the Régie des installations olympiques as at October 31, 2003 and the statements of earnings, appropriated surplus and operating surplus of the Revenue Fund and cash flows of the Revenue Fund and the Construction Fund for the year then ended. These financial statements are the responsibility of Régie management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In our opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at October 31, 2003 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles described in Note 3. As required by the Auditor General Act (R.S.Q., c. V-5.01), we report that, in our opinion, these accounting principles have been applied on a basis consistent with that of the preceding year.

Raymond Chabot Grant Thornton
Chartered Accountants

Montréal, December 11, 2003

RÉGIE DES RENTES DU QUÉBEC

(R.S.Q., c. R-9, c. R-15.1, c. P-19.1)

QUÉBEC PENSION PLAN FUND

REVENUE, EXPENDITURE AND NET ASSETS

for the year ended March 31, 2004

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
REVENUE			
Contributions to the Québec Pension Plan	8 163 099	7 367 122	6 713 138
Less:			
Bad debts related to uncollected contributions (Note 5)		13 920	13 920
	<u>8 163 099</u>	<u>7 353 202</u>	<u>6 699 218</u>
Investment income (losses) - net (Note 6)	3 902 288	(2 525 265)	(73 698)
Other revenue	<u>1 527</u>	<u>741</u>	<u>115</u>
	<u>12 066 914</u>	<u>4 828 678</u>	<u>6 625 635</u>
EXPENDITURE			
Pensions and benefits paid			
Retirement benefits	5 054 050	4 780 832	4 503 549
Surviving spouse's benefits	1 361 405	1 299 397	1 259 764
Disability pensions	626 140	590 002	558 966
Orphans' pensions	16 288	16 225	16 062
Pensions to the children of disabled contributors	8 939	8 446	8 271
Death benefits	<u>89 755</u>	<u>88 964</u>	<u>83 839</u>
	<u>7 156 577</u>	<u>6 783 866</u>	<u>6 430 451</u>
Reimbursement of social aid benefits to the Ministère de l'Emploi, de la Solidarité sociale et de la Famille			
	<u>3 802</u>	<u>4 119</u>	<u>4 365</u>
	<u>7 160 379</u>	<u>6 787 985</u>	<u>6 434 816</u>
Administrative expenses (Note 7)	<u>87 602</u>	<u>83 629</u>	<u>74 548</u>
	<u>7 247 981</u>	<u>6 871 614</u>	<u>6 509 364</u>
EXCESS REVENUE OVER EXPENDITURE	4 818 933	(2 042 936)	116 271
NET ASSETS OF THE PLAN, BEGINNING OF YEAR	<u>15 422 582</u>	<u>17 465 518</u>	<u>17 349 247</u>
NET ASSETS OF THE PLAN, END OF YEAR	<u>20 241 515</u>	<u>15 422 582</u>	<u>17 465 518</u>

RÉGIE DES RENTES DU QUÉBEC**QUÉBEC PENSION PLAN FUND**

BALANCE SHEET
as at March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
ASSETS			
Amounts entrusted to the Caisse de dépôt et placement du Québec (Note 9)	20 192 003	15 844 266	18 037 283
Contributions receivable from the Ministère du Revenu du Québec	180 619		59 675
Accounts receivable	20 613	19 078	19 151
Fixed assets (Note 10)	<u>29 872</u>	<u>25 852</u>	<u>20 199</u>
	<u>20 423 107</u>	<u>15 889 196</u>	<u>18 136 308</u>
LIABILITIES			
Outstanding cheques less cash on hand	43 330	38 578	40 048
Advances from the Caisse de dépôt et placement du Québec (Note 12)		263 702	520 773
Contributions repayable to the Ministère du Revenu du Québec		9 722	
Accounts payable	115 467	132 842	89 721
Owed to the other funds administrated by the Régie des rentes du Québec	1 503	975	901
Provision for vacation time and sick leave	<u>21 292</u>	<u>20 795</u>	<u>19 347</u>
	181 592	466 614	670 790
NET ASSETS OF THE QUÉBEC PENSION PLAN (Note 2)	<u>20 241 515</u>	<u>15 422 582</u>	<u>17 465 518</u>
	<u>20 423 107</u>	<u>15 889 196</u>	<u>18 136 308</u>

On behalf of the Board of Directors,
Guy Morneau, President and Chief Executive Officer
Jean-Claude Deschênes, Director

RÉGIE DES RENTES DU QUÉBEC

QUÉBEC PENSION PLAN FUND

CASH FLOWS

for the year ended March 31, 2004

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES			
Excess revenue over expenditure	4 818 933	(2 042 936)	116 271
Non-cash items:			
(Increase) decrease of the market value of participation deposits	(3 349 820)	3 162 162	995 618
Gain on disposal of fixed assets	(91)		
Depreciation of fixed assets	7 981	7 603	6 948
Amortization of fixed assets attributed to other funds	1 565	1 596	1 565
Depreciation of fixed assets	869		
Depreciation attributed to other funds	274		
	<u>1 479 711</u>	<u>1 128 425</u>	<u>1 120 402</u>
Net variation in non-cash items linked to operating activities	<u>(218 126)</u>	<u>147 252</u>	<u>107 235</u>
Cash receipts linked to operating activities	<u>1 261 585</u>	<u>1 275 677</u>	<u>1 227 637</u>
CASH FLOW LINKED TO INVESTMENT ACTIVITIES INVOLVING FIXED ASSETS			
Proceeds from the sale of fixed assets	133		
Disbursements related to the acquisition of fixed assets	<u>(14 751)</u>	<u>(14 852)</u>	<u>(9 560)</u>
Net disbursements linked to investment activities involving fixed assets	<u>(14 618)</u>	<u>(14 852)</u>	<u>(9 560)</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES			
Disbursements related to the acquisition of participation deposits	<u>(770 920)</u>	<u>(1 002 284)</u>	<u>(1 176 518)</u>
Net disbursements linked to investment activities	<u>(770 920)</u>	<u>(1 002 284)</u>	<u>(1 176 518)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	476 047	258 541	41 559
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 16)	<u>(302 280)</u>	<u>(560 821)</u>	<u>(602 380)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 16)	<u><u>173 767</u></u>	<u><u>(302 280)</u></u>	<u><u>(560 821)</u></u>

RÉGIE DES RENTES DU QUÉBEC**SUPPLEMENTAL PENSION PLANS MONITORING FUND**
REVENUE AND EXPENDITURE AND FUND BALANCE
 for the year ended March 31, 2004
 (in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
REVENUE			
Fees	5 901	5 425	4 808
Other	<u>63</u>	<u>117</u>	<u>111</u>
	5 964	5 542	4 919
Yield attributed by the Québec Pension Plan Fund (Note 4)	<u>907</u>	<u>(315)</u>	<u>52</u>
	<u>6 871</u>	<u>5 227</u>	<u>4 971</u>
LIABILITIES			
Administrative expenses (Note 4)			
Salaries and fringe benefits	3 876	3 915	3 593
Transportation and communications	107	112	83
Professional services	203	173	197
Rent	346	313	323
Maintenance and repairs	71	69	69
Supplies	31	20	23
Equipment	6	5	4
Other expenses	37	18	27
Bad debts	7	2	23
Depreciation of the fixed assets allocated by the Québec Pension Plan Fund	213	169	207
Depreciation of the fixed assets of the Fund	282	275	259
Professional fees related to tutorship and winding-up of plans	<u>10</u>		
	<u>5 189</u>	<u>5 071</u>	<u>4 808</u>
EXCESS REVENUE OVER EXPENDITURE	1 682	156	163
OPENING FUND BALANCE	<u>3 489</u>	<u>3 333</u>	<u>3 170</u>
CLOSING FUND BALANCE	<u><u>5 171</u></u>	<u><u>3 489</u></u>	<u><u>3 333</u></u>

RÉGIE DES RENTES DU QUÉBEC**SUPPLEMENTAL PENSION PLANS MONITORING FUND**

BALANCE SHEET
as at March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
ASSETS			
Cash on hand	5 196	4 492	4 050
Accounts receivable	111	63	71
Owed by the Quebec Pension Plan Fund	498		
Fixed assets (Note 10)	<u>353</u>	<u>539</u>	<u>693</u>
	<u>6 158</u>	<u>5 094</u>	<u>4 814</u>
LIABILITIES			
Owed to the Québec Pension Plan Fund		587	552
Provision for vacation time and sick leave	<u>987</u>	<u>1 018</u>	<u>929</u>
	<u>987</u>	<u>1 605</u>	<u>1 481</u>
Fund balance	<u>5 171</u>	<u>3 489</u>	<u>3 333</u>
	<u>6 158</u>	<u>5 094</u>	<u>4 814</u>

On behalf of the Board of Directors,
Guy Morneau, President and Chief Executive Officer
Jean-Claude Deschênes, Director

RÉGIE DES RENTES DU QUÉBEC**SUPPLEMENTAL PENSION PLANS MONITORING FUND****CASH FLOWS**

for the year ended March 31, 2004

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES			
Excess revenue over expenditure	1 682	156	163
Non-cash item:			
Amortization of fund's fixed assets	<u>282</u>	<u>275</u>	<u>259</u>
	1 964	431	422
Net variation in non-cash items linked to operating activities	<u>(1 164)</u>	<u>132</u>	<u>(178)</u>
Net receipts linked to operating activities	<u>800</u>	<u>563</u>	<u>244</u>
CASH FLOW LINKED TO INVESTMENT ACTIVITIES INVOLVING FIXED ASSETS			
Disbursements related to the acquisition of fixed assets	<u>(96)</u>	<u>(121)</u>	<u>(168)</u>
Net disbursements linked to investment activities involving fixed assets	<u>(96)</u>	<u>(121)</u>	<u>(168)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	704	442	76
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 16)	<u>4 492</u>	<u>4 050</u>	<u>3 974</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 16)	<u>5 196</u>	<u>4 492</u>	<u>4 050</u>

RÉGIE DES RENTES DU QUÉBEC**PARENTAL INSURANCE PLAN FUND**

REVENUE AND EXPENDITURE
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
REVENUE			
Contribution from the Gouvernement du Québec	<u>7 580</u>	<u> </u>	<u> </u>
EXPENDITURE			
Depreciation of the fund's fixed assets (Note 8)	5 488		
Depreciation of implementation costs (Note 8)	<u>2 092</u>	<u> </u>	<u> </u>
	<u>7 580</u>	<u> </u>	<u> </u>
EXCESS REVENUE OVER EXPENDITURE	<u> </u>	<u> </u>	<u> </u>

RÉGIE DES RENTES DU QUÉBEC

PARENTAL INSURANCE PLAN FUND

BALANCE SHEET
as at March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
ASSETS			
Owed by the Gouvernement du Québec	7 580		
Owed by the Québec Pension Plan Fund		183	87
Fixed assets (Note 10)	1 547	6 827	6 732
Implementation costs (Note 11)	<u>553</u>	<u>2 567</u>	<u>2 496</u>
	<u>9 680</u>	<u>9 577</u>	<u>9 315</u>
 Notes payable (Note 13)	 <u>9 680</u>	 <u>9 577</u>	 <u>9 315</u>
	<u>9 680</u>	<u>9 577</u>	<u>9 315</u>

On behalf of the Board of Directors,
Guy Morneau, President and Chief Executive Officer
Jean-Claude Deschênes, Director

RÉGIE DES RENTES DU QUÉBEC**PARENTAL INSURANCE PLAN FUND****CASH FLOWS**

for the year ended March 31, 2004

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES			
Excess revenue over expenditure			
Non-cash items:			
Depreciation of fixed assets	5 488		
Depreciation of implementation costs	<u>2 092</u>		
	7 580		
Net variation in non-cash items linked to operating activities	<u>(7 397)</u>	<u>(96)</u>	
Net disbursements linked to operating activities	<u>183</u>	<u>(96)</u>	
CASH FLOW LINKED TO INVESTMENT ACTIVITIES INVOLVING FIXED ASSETS			
Disbursements related to computer systems development	(208)	(191)	(236)
Disbursements related to implementation Costs	(78)	(71)	(88)
Proceeds from the sale of fixed assets		<u>96</u>	
Net disbursements linked to investment activities Involving fixed assets	<u>(286)</u>	<u>(166)</u>	<u>(324)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES			
Receipts from note payable	<u>103</u>	<u>262</u>	<u>324</u>
Net receipts linked to financing activities	<u>103</u>	<u>262</u>	<u>324</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
OPENING AND CLOSING CASH AND CASH EQUIVALENTS (Note 16)			

RÉGIE DES RENTES DU QUÉBEC**FUND FOR THE ADMINISTRATION OF FAMILY BENEFITS PROGRAM**

REVENUE AND EXPENDITURE
for the year ended March 31, 2004
(in thousands of dollars)

	2004	2003	2002
REVENUE			
Contribution from the Gouvernement du Québec	23 747	23 157	21 462
EXPENDITURE			
Financial expenses			
Interest on short-term note payable	41		
Interest on long-term note payable	508	676	640
Other interest charges	57	56	48
	606	732	688
Administrative expenses (Note 4)			
Salaries and fringe benefits	12 824	12 328	11 167
Transportation and communications	1 489	1 687	1 635
Professional services	850	1 006	910
Rent	907	975	1 087
Maintenance and repairs	552	628	760
Supplies	183	168	141
Equipment	22	16	12
Other expenses	81	56	103
Participation in the financing of the Tribunal administratif du Québec	219	166	203
Depreciation of the fixed assets allocated by the Québec Pension Plan Fund	1 352	1 427	1 358
Depreciation of the fixed assets of the Fund	4 388	3 889	3 210
Amortization of implementation expenses		79	188
Depreciation of fixed assets attributed by the Québec Pension Plan Fund (Note 8)	274		
	23 141	22 425	20 774
	23 747	23 157	21 462
EXCESS REVENUE OVER EXPENDITURE			

RÉGIE DES RENTES DU QUÉBEC**FUND FOR THE ADMINISTRATION OF FAMILY BENEFITS PROGRAM****BALANCE SHEET OF THE FUNDS**

as at March 31, 2004

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
ASSETS			
Owed by the Québec Pension Plan Fund	1 005	1 379	1 366
Fixed assets (Note 10)	10 488	13 940	17 093
Implementation costs (Note 11)			79
	<u>11 493</u>	<u>15 319</u>	<u>18 538</u>
LIABILITIES			
Accrued expenses	92	106	110
Owed to the Gouvernement du Québec	606	655	631
Provision for vacation time and sick leave	896	848	686
Notes payable (Note 13)	<u>9 899</u>	<u>13 710</u>	<u>17 111</u>
	<u>11 493</u>	<u>15 319</u>	<u>18 538</u>

On behalf of the Board of Directors,
 Guy Morneau, President and Chief Executive Officer
 Jean-Claude Deschênes, Director

RÉGIE DES RENTES DU QUÉBEC**FUND FOR THE ADMINISTRATION OF FAMILY BENEFITS PROGRAM****CASH FLOWS**

for the year ended March 31, 2004

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES			
Excess revenue over expenditure			
Non-cash items:			
Amortization of fund's fixed assets	4 388	3 889	3 210
Amortization of implementation costs	<u> </u>	<u>79</u>	<u>188</u>
	4 388	3 968	3 398
Net variation in non-cash items linked to operating activities	<u>359</u>	<u>169</u>	<u>150</u>
Net receipts linked to operating activities	<u>4 747</u>	<u>4 137</u>	<u>3 548</u>
CASH FLOWS LINKED TO INVESTMENT ACTIVITIES INVOLVING FIXED ASSETS			
Disbursements related to the acquisition of fixed assets	<u>(936)</u>	<u>(736)</u>	<u>(2 826)</u>
Net disbursements linked to investment activities			
Involving fixed assets	<u>(936)</u>	<u>(736)</u>	<u>(2 826)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES			
Receipts from notes payable		40	1 931
Reimbursement of notes payable	<u>(3 811)</u>	<u>(3 441)</u>	<u>(2 653)</u>
Net disbursements linked to financing activities	<u>(3 811)</u>	<u>(3 401)</u>	<u>(722)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u> </u>	<u> </u>	<u> </u>
OPENING AND CLOSING CASH AND CASH EQUIVALENTS			
(Note 16)	<u> </u>	<u> </u>	<u> </u>

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

(in thousands of dollars)

1. CONSTITUTION AND MANDATE OF THE RÉGIE DES RENTES DU QUÉBEC

The Régie was created in 1965 by the act entitled Québec Pension Plans (1965, chapter 24). The Régie administers the Act respecting the Québec Pension Plan (R.S.Q., c. R-9) as well as the Supplemental Pension Plans Act (R.S.Q., c. R-15.1) and the Act respecting family benefits (R.S.Q., c. P-19.1). Moreover, in 1997, the Gouvernement du Québec entrusted it with the administration of the Parental Insurance Plan (Act respecting the Parental Insurance Plan (Q.S., 2001, c. 9)), which is not, however, yet in effect.

As a government agent, the Régie is not subject to income tax.

2. DESCRIPTION OF PROGRAMS ADMINISTERED BY THE RÉGIE

The following description is provided for information purposes. For more comprehensive information concerning the programs, please consult the Act respecting the Québec Pension Plan.

1) QUÉBEC PENSION PLAN

The Act respecting the Québec Pension Plan entered into force on January 1, 1966. The Québec Pension Plan is a compulsory program designed to provide workers and their dependants with basic protection against loss of income due to retirement, disability or death.

Funding and net assets of the Québec Pension Plan Fund

The Québec Pension Plan is financed out of contributions shared equally between employees and employers. Self-employed workers must pay both contributions.

The Plan uses the so-called partial funding financing method in which the year's contributions are used to pay current benefits and constitute a reserve allowing the Plan's financing to be stabilized in a context of population aging and to protect the Plan from economic fluctuations. The net assets of the Québec Pension Plan Fund represent a reserve of funds available for the payment of pensions and benefits, the reimbursement of social aid benefits and the Plan's administrative expenses. These net assets do not cover the actuarial present value of pensions and benefits accrued and payable. At March 31, 2004, the Régie's net assets were \$20.2 billion (2003: \$15.4 billion), (2002: \$17.5 billion) or 2.8 times the amount of the pensions and benefits paid out in fiscal 2003-2004.

According to the last actuarial analysis, at December 31, 2000, based on the premium rate of 9.9% in 2003 and for the subsequent years, the Plan will be able to pay pensions and benefits, the Plan's administrative expenses and reimburse the Ministère de l'Emploi, de la Solidarité sociale et de la Famille for social aid benefits owing throughout the projection period, i.e. until 2050. Since actuarial analyses are carried out every three years, the next one will report on the Plan's situation at December 31, 2003 and will be completed during the fiscal 2004-2005.

To measure the Plan's long-term financing stability, we can also refer to the concept of "equilibrium premium rate". This is the premium rate that would be needed to maintain a constant ratio between the reserve (the Plan's net assets) and annual disbursements. The equilibrium rate is an indicator of an ideal situation for Plan financing. A certain disparity between the legal premium rate and the equilibrium rate can be tolerated without having to modify the Plan.

According to actuarial analysis assumptions for 2000, this equilibrium rate is 10.1%--a difference of 0.2 compared to the premium rate of 9.9 % set by the Act. If this equilibrium rate were currently applied, the reserve would be higher and generate sufficient investment income to offset the disparity between contributions and disbursements. It would grow at the same rate as disbursements, thereby maintaining a stable ratio, in the long term, between the reserve and annual disbursements.

At least every six years, there is a public consultation to study the enforcement of the Act respecting the Québec Pension Plan and the desirability of amending both the benefits envisaged and the premium rate. The first consultation was held in February 2004. The comments gathered are currently being analyzed.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
 March 31, 2004
 (in thousands of dollars)

2. DESCRIPTION OF PROGRAMS ADMINISTERED BY THE RÉGIE (cont'd)**I) QUÉBEC PENSION PLAN (cont'd)****Retirement benefits**

A pension is payable to all contributors aged 60 or over, subject to the provisions of the Act respecting the Québec Pension Plan. The monthly pension is equal to 25% of the average monthly pensionable earnings during the contributory period. It is increased or decreased by 1/2% per month of difference with the 65-year anniversary date, depending on whether the person applies for the pension before or after the age of 65. For new beneficiaries, at March 31, 2004, the maximum monthly pension payable at the age of 65 was \$814.17.

Surviving spouse's benefits

In the event of death, the surviving spouse is entitled to a pension determined according to the amount contributed to the Plan by the deceased during at least one-third of the contributory period (minimum of three years; maximum of ten years). The amount of this pension varies mainly according to the surviving spouse's age and the pensionable earnings and contributions of the deceased. For new beneficiaries, at March 31, 2004, the maximum monthly pension payable to a surviving spouse was \$704.90.

Disability pension

A disability pension is payable to any disabled contributor subject to the provisions of the Act respecting the Québec Pension Plan. The amount of the pension varies according to the gains and contributions of the disabled person. For new beneficiaries, at March 31, 2004, the maximum monthly pension payable to a disabled contributor was \$992.77.

Benefits - pensions payable to the children of disabled contributors and to orphans

For new beneficiaries, at March 31, 2004, the amount of monthly benefits payable to each dependent child or orphan of a disabled or deceased contributor was \$61.18.

Death benefits

Death benefits are payable first to the person who paid the funeral expenses, provided that person applies for the benefits within 60 days following the contributor's death. After 60 days, the benefit is payable to qualified applicants within the meaning of the Act respecting the Québec Pension Plan. The amount of this benefit was set at \$2 500 in January 1998 pour for all contributors meeting Plan requirements.

Benefit indexation

Pensions are indexed annually to the average Canadian consumer price index. On January 1, 2004, the rate of indexation was 3.2%.

II) SUPPLEMENTAL PENSION PLANS ACT

Pursuant to the Supplemental Pension Plans Act, the Régie is responsible for ensuring that pension plans are administered and operated according to these acts. Its mandate includes encouraging financial planning for retirement, in particular by promoting the establishment and improvement of supplemental pension plans. The monitoring fund is comprised of the fees paid into it by the supplemental pension plans.

III) PARENTAL INSURANCE PLAN

The Parental Insurance Plan, which is not yet in force, falls under the Gouvernement du Québec's family policy. The purpose of this plan is to support parents caring for newborn or adopted children by facilitating access to maternity or parental leave and awarding more generous benefits.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

2. DESCRIPTION OF PROGRAMS ADMINISTERED BY THE RÉGIE (cont'd)

IV) FAMILY BENEFIT PROGRAM

The Régie administers the family benefits program under the Act respecting family benefits. The Régie deals with customer relations and the payment of allowances.

A family allowance is paid to people with dependent children under age 18. The amount varies according to the type of family (single-parent or two-parent), the number of eligible children and household income in the previous year.

An allowance is also paid for eligible handicapped children. As at March 31, 2004, the amount of this allowance is \$119.22 a month.

As at March 30, 2004, the government announced that as of January 1, 2005, the new children's support program will replace the family allowance.

3. ACCOUNTING POLICIES

The financial statements of the Régie were prepared by Régie's management in keeping with accounting principles that are generally recognized in Canada. These statements include amounts based on best estimates and judgements.

Fixed assets

Fixed assets are shown at acquisition cost. Intangible assets such as "computer systems development" comprise capitalized costs for direct labour, interest and other costs linked directly to systems development up to the start-up date.

Fixed assets are amortized according to the straight-line method based on their probable service life:

Office furniture and equipment	3 to 7 years
Data processing equipment and software	3 to 7 years
Automotive equipment	3 years
Computer	3 years
Office automation equipment	5 years
Computer systems development	5 years

Leasehold improvements are amortized according to the straight-line method over the remaining term of the lease.

Implementation costs

In addition to the direct costs, the costs inherent in implementing the family benefit program and the Parental Insurance Plan, include interest and a share in the general and administrative costs. Implementation costs are amortized according to the straight-line method over a five-year period, as of the date the activities of the corresponding program began.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans. Only the Régie's contributions are charged to the fiscal year's results according to the contribution rates determined for regular service. The Régie's obligations towards these government plans are restricted to its contributions as an employer.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

3. ACCOUNTING POLICIES (cont'd)**Amounts entrusted to the Caisse de dépôt et placement du Québec**

Demand deposits are recorded at acquisition cost. Participation deposits are recorded at market value, which is established on the basis of the fair value of units, as determined by the Caisse de dépôt et placement du Québec.

Contributions to the Plan

The Ministère du Revenu du Québec collects the contributions for the Régie and regularly pays them to the latter. These amounts are provisional and subject to verification and correction. These contributions are recorded according to the best estimate at the fiscal year end. Where applicable, adjustments are posted to the fiscal year in which they are known.

Net investment income

The Régie records interest and penalties earned when notices of assessment are issued. These amounts represent best estimates. They are provisional and subject to correction. Where applicable, adjustments are posted to the fiscal year in which they are known.

4. ADMINISTRATIVE EXPENSE SHARING AND ATTRIBUTION OF YIELD BETWEEN THE VARIOUS FUNDS ADMINISTERED BY THE RÉGIE DES RENTES DU QUÉBEC

The means used to divide administrative costs among the various funds administered by the Régie des rentes du Québec is established by attributing the direct costs for each fund to that fund and distributing indirect costs based on the efforts the Régie planned to devote to each fund.

The liquid assets of the Supplemental Pension Plans Monitoring Fund are entrusted to the Québec Pension Plan Fund, which takes care of investing them at the Caisse de dépôt et placement du Québec. Based on the agreement between the two funds, a yield is calculated using the weighted average of the yield of participation deposits and demand deposits is attributed to the Supplemental Pension Plans Monitoring Fund.

5. EXPENSES RELATED TO CONTRIBUTION COLLECTION BY THE MINISTÈRE DU REVENU DU QUÉBEC

According to the Act respecting the Québec Pension Plan, the Ministère du Revenu du Québec is the agency mandated to collect the contributions to the Plan. In the context of this mandate, the Department invoices the Régie for administrative expenses and other expenses it incurs for accounts receivable. These expenses have been determined by Order-in-Council based on the expenses actually incurred by the Ministère du Revenu du Québec.

Administrative costs were analyzed by the Ministère du Revenu du Québec in fiscal 2001-2002. This re-evaluation allowed \$4 839 503 posted to this fiscal year's operations to be recovered. Since fiscal 2001, discussions have been under way to update the costs inherent in the accounts receivable for 2001 and could involve recovery that cannot, however, be reasonable estimated as at March 31, 2004. Consequently, since the beginning of fiscal 2003-2004, the Ministère du Revenu du Québec suspended the invoicing generally done in this regard.

	2004	2003	2002
Administrative expenses	13 190	12 906	7 752
Interest paid by the Ministère du Revenu du Québec		9 473	9 473
Interest earned by the Ministère du Revenu du Québec when collection accounts receivable		(4 060)	(4 060)
Bad debts linked to contributions not collected		13 920	13 920
	<u>13 190</u>	<u>32 239</u>	<u>27 085</u>

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

6. INVESTMENT INCOME (LOSSES) OF THE QUÉBEC PENSION PLAN FUND

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenue			
Amounts deposited with the General Fund of the Caisse et placement du Québec			
Revenue from participation deposits	761 346	749 170	784 214
Interest on demand deposits	<u>3 284</u>	<u>211</u>	<u>1 803</u>
	764 630	749 381	786 017
Interest and penalty earnings on the issue of contribution notices	13 551	12 338	10 545
Interest earnings realized by the Ministère du Revenu du Québec on the collection of receivables (Note 5)		4 060	4 060
Interest on bank deposits	<u>72</u>	<u>65</u>	<u>78</u>
	778 253	765 844	800 700
Expenditure			
Interest on advances from the Caisse de dépôt et placement du Québec	(1 812)	(7 154)	(5 316)
Interest on pensions and benefits	(1 550)	(1 983)	(1 545)
Interest borne by the Ministère du Revenu du Québec (Note 5)		(9 473)	(9 473)
Yield attributed to the Supplemental Pension Plans Monitoring Fund (Note 4)	(907)	315	(52)
Interest on bank overdraft	<u>(7)</u>	<u>(8)</u>	<u>(9)</u>
	773 977	747 541	784 305
Change in the market value of funds entrusted to the Caisse de dépôt et placement du Québec			
Increase (decrease) in the market value of participation deposits	3 349 820	(3 162 162)	(995 618)
Net (losses) gain on sale of investments	<u>(221 509)</u>	<u>(110 644)</u>	<u>137 615</u>
	3 128 311	(3 272 806)	(858 003)
	<u>3 902 288</u>	<u>(2 525 265)</u>	<u>(73 698)</u>

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

7. ADMINISTRATIVE EXPENSES OF THE QUÉBEC PENSION PLAN FUND

	2004	2003	2002
Salaries and fringe benefits	43 676	40 922	39 683
Transportation and communications	4 437	4 630	4 179
Professional services	6 341	7 320	6 449
Rent	4 353	3 993	4 230
Maintenance and repairs	1 813	1 812	1 395
Supplies	469	577	515
Equipment	80	55	72
Other expenses	659	705	512
Expenses related to collection of contributions by the Ministère du Revenu du Québec (Note 5)	13 190	12 906	7 752
Participation in the financing of the Tribunal administratif du Québec	1 972	1 883	1 760
Overpaid pensions and benefits	1 599	1 127	933
Bad debts	163	96	120
Depreciation of fixed assets	7 981	7 603	6 948
Depreciation of the fund's fixed assets (Note 8)	869		
	<u>87 602</u>	<u>83 629</u>	<u>74 548</u>

8. DEPRECIATION OF FIXED ASSETS IN THE LONG TERM

The implementation costs and computer system development costs of the Parental Insurance Plan fund capitalized since 1997 were reassessed by an expert as at March 31, 2004. The excess of the original cost over the replacement value of items still deemed useful when the program eventually starts up were recorded as a debit. The change in technologies and a new approach to customer services are the rationale for the depreciation. Depreciation of \$5 487 692 was recorded for fixed assets and depreciation of \$2 091 877 charged to implementation costs.

The development of computer systems of the Québec Pension Plan Fund carried out in the context of the government project to acquire an integrated resource management software package (GIREs) were also reassessed by experts as at March 31, 2004. This reassessment was carried out following the Québec government's announcement to terminate the GIREs project and the Régie's decision to pursue the process begun in this regard, but using a different software package. The excess of the original cost compared to the replacement value of items deemed useful was debited. Total depreciation of \$1 142 941 was charged against these fixed assets. Of this amount, \$274 300 was attributed to the Fund for the administration of the Family Benefits Program.

9. AMOUNTS FROM THE QUÉBEC PENSION PLAN FUND ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2004	2003	2002
Deposits with the General Fund of the Caisse de dépôt et placement du Québec			
Demand deposits	217 097		
Participation deposits	19 904 084	15 783 344	17 943 222
Investment income receivable	70 822	60 922	94 061
	<u>20 192 003</u>	<u>15 844 266</u>	<u>18 037 283</u>

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

**9. AMOUNTS FROM THE QUÉBEC PENSION PLAN FUND ENTRUSTED
TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)**

Participation deposits with the General Fund of the Caisse de dépôt et placement du Québec are expressed in units. Units may be refunded on advance notice in accordance with the terms of payment of the Caisse de dépôt at the fair value of the net equity of the General Fund at the end of each month. At March 31, 2004, the Régie owned 22 988 745 participation units (2003: 22 024 068; 2002: 20 786 364).

	2004	2003	2002
Cost of units	18 868 307	18 097 387	17 095 104

The audited financial statements of the general fund of the Caisse de dépôt et placement du Québec are available to the public and supply details on investments held.

10. FIXED ASSETS

	2004			2003	2002
	Cost	Accumulated depreciation	Net	Net	Net
Québec Pension Plan Fund					
Office furniture and equipment	7 418	6 254	1 164	1 281	1 374
Data procession equipment and software	18 713	16 047	2 666	2 603	3 046
Automotive equipment	61	20	41		
Computer	200	67	133	204	427
Office automation equipment	15 396	12 789	2 607	3 068	3 294
Leasehold improvements	3 759	2 328	1 431	1 266	695
Computer systems development (Note 8)	67 808	45 978	21 830	17 430	11 363
	113 355	83 483	29 872	25 852	20 199

**Supplemental Pension Plans
Monitoring Fund**

Computer systems development	1 677	1 324	353	539	693

Parental Insurance Plan Fund

Office furniture and equipment					46
Office automation equipment					50
Computer systems development (Note 8)	1 547		1 547	6 827	6 636
	1 547		1 547	6 827	6 732

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

10. FIXED ASSETS (cont'd)

	2004		2003	2002
	Cost	Accumulated depreciation	Net	Net
Fund for the administration of the Family Benefits Program				
Office furniture and equipment	55	55		
Office automation equipment	174	174		
Computer systems development	27 018	16 530	10 488	17 093
	<u>27 247</u>	<u>16 759</u>	<u>10 488</u>	<u>17 093</u>

Acquisitions for the year are:

	Acquisitions before interest	Capitalized interest	Total acquisitions
Québec Pension Plan Fund	14 751		14 751
Supplemental Pension Plans Monitoring Fund	96		96
Parental Insurance Plan Fund		208	208
Fund for the administration of the Family Benefits Program	936		936

Fixed assets with a net book value of \$41 667 were disposed of during the fiscal year in the Québec Pension Plan Fund. The proceeds from the sale totalled \$132 820.

11. IMPLEMENTATION COSTS

	2004		2003	2002
	Cost	Accumulated depreciation	Net	Net
Parental Insurance Plan fund (Note 8)	<u>553</u>		<u>2 567</u>	<u>2 496</u>
Fund for the administration of the Family Benefits Program	<u>941</u>	<u>941</u>		<u>79</u>

During the year, interest of \$78 000 was capitalized to implementation costs of the Parental Insurance Plan Fund.

12. CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC ADVANCES

Caisse de dépôt et placement du Québec advances are not guaranteed and are limited to \$650 million. They bear interest at the demand deposit rate established daily plus 0.05%. The agreement terminates on January 6, 2005.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

13. NOTES PAYABLE

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Parental Insurance Plan Fund			
Short-term borrowing	<u>9 680</u>	<u>9 577</u>	<u>9 315</u>
Fund for the administration of the Family Benefits Program			
Short-term borrowing	1 214	1 453	1 446
Long-term borrowing	<u>8 685</u>	<u>12 257</u>	<u>15 665</u>
	<u>9 899</u>	<u>13 710</u>	<u>17 111</u>

Short-term borrowing in the Parental Insurance Plan Fund

The borrowing on note from the Financing Fund of the Gouvernement du Québec at 2.25% will mature on April 7, 2004. This borrowing is contracted for the implementation and development of computer systems for the Parental Insurance Plan, for which the Régie acts as the Government's agent. An amount of \$7 579 569 will be repaid in fiscal 2004-2005. For the remainder, no terms of repayment have as yet been set, given that the plan's effective date has not yet been established.

Short-term borrowing in the Fund for the administration of the Family Benefits Program

The borrowing on note from the Financing Fund of the Gouvernement du Québec at 2.24% will mature on May 3, 2004. This borrowing is contracted for the implementation and development of computer systems for the Family Benefits Program, for which the Régie acts as the Government's agent.

Long-term borrowing in the Fund for the administration of the Family Benefits Program

The loan on a note from the Financing Fund of the Gouvernement du Québec at 4.74% matures on June 1, 2006. This borrowing, of an initial amount of \$16 765 650 is the conversion of a portion of the short-term borrowing contracted in the context of the implementation and development of computer systems for the Family Benefits Program, for which the Régie acts as the Government's agent.

Payments of principal on the long-term borrowing for the fund for the administration of family assistance programs for the next three fiscal years are as follows:

2005	\$3 745 930
2006	3 927 434
2007	1 011 240

Gouvernement du Québec guarantee

To guarantee the payment of principal and interest, the Minister of Employment, Social Solidarity and Family Welfare is authorized by the Government, after ensuring that the funds concerned cannot legally discharge their obligations, to pay the Régie the required sums.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

14. FAIR VALUE OF FINANCIAL INSTRUMENTS**Other assets and liabilities**

The fair value of cash, demand deposits, contributions receivable or repayable, accounts receivable, amounts owed by the Québec Pension Plan Fund or to the other funds, amount owed by the Gouvernement du Québec, outstanding cheques, Caisse de dépôt et placement du Québec advances, accounts payable, accrued liabilities and the short-term bill payable are equal to their book value given that they mature in the near future.

Long-term borrowing

At March 31, 2004, the fair value of the \$8 684 604 Family Benefits Program long-term note was \$8 968 789 given the discounting of cash flows at the market rate for similar fixed-rate securities.

15. FRINGE BENEFITS**Pension plans**

The staff members of the Régie participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) and Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Régie's contributions charged to the year-end statement, based on the contribution rates set for regular service, amount to \$2 008 351 (2003: \$1 790 507; 2002: \$1 651 415). The Régie's liability towards these government plans is restricted to its contributions as an employer.

16. CASH FLOW

The cash and cash equivalents shown in the cash flow statement include the following financial statement items:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Québec Pension Plan Fund			
Demand deposits (Note 9)	217 097		
Outstanding cheques minus cash	(43 330)	(38 578)	(40 048)
Advances from the Caisse de dépôt et placement du Québec		<u>(263 702)</u>	<u>(520 773)</u>
	<u>173 767</u>	<u>(302 280)</u>	<u>(560 821)</u>
Supplemental Pension Plans Monitoring Fund			
Cash	<u>5 196</u>	<u>4 492</u>	<u>4 050</u>

Parental Insurance Plan Fund

This plan is not yet in effect. The Québec Pension Plan Fund administers the amounts necessary for the development of the systems implemented. This fund has no cash or cash equivalent, the Ministère de l'Emploi, de la Solidarité sociale et de la Famille reimburses the Régie, where applicable, for all disbursements made for this fund.

RÉGIE DES RENTES DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2004

(in thousands of dollars)

16. CASH FLOW (cont'd)**Fund for the administration of the Family Benefits Program**

The Québec Pension Plan Fund administers the Family Benefits Program. This fund has no cash or cash equivalent. The Ministère de l'Emploi, de la Solidarité sociale et de la Famille reimburses the Régie, where applicable, for all disbursements made for this fund.

17. COMPARATIVE FIGURES

Certain 2003 and 2002 figures were reclassified for consistency with the presentation adopted in 2004.

AUDITOR'S REPORT

To the National Assembly

I have audited the financial statement of the Québec Pension Plan Fund as at March 31, 2004 and the statement of revenue and expenditures and net assets and the cash flow statement for the fiscal year ended that date. I have also audited the balance sheets of the Supplemental Pension Plans Monitoring Fund, the Parental Insurance Fund and the Fund for the administration of the Family Benefits Program of the Régie des rentes du Québec as at March 31, 2004; the statement of revenue and expenditure and fund balance and cash flow statements for the Supplemental Pension Plans Monitoring Fund and the cash flow statement for the Parental Insurance Plan and the Fund for the administration of the Family Benefits Program for the fiscal year then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation

In my opinion, these financial statements present, in all material respects, the financial position of the Régie's funds as at March 31, 2004 and their revenues, expenditure and cash flow for the fiscal year then ended in keeping with the accounting principles that are generally recognized in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these policies were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 7, 2004

RÉGIE DU CINÉMA
(R.S.Q., c. C-18.1)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Examination fees:		
Film classification requests	\$1 339 177	\$2 369 555
Licence applications	90 894	54 068
Licences	1 202 106	788 549
Monitoring of video material	8 462 155	9 594 416
Other	<u>423 737</u>	<u>241 207</u>
	<u>11 518 069</u>	<u>13 047 795</u>
 EXPENDITURE		
Salaries and fringe benefits	2 944 776	3 074 281
Rent	435 945	385 722
Printing services	344 802	251 205
Transportation and communication	174 956	150 292
Depreciation of fixed assets	146 857	138 280
Professional, administrative and other services	128 008	226 987
Maintenance and repairs	63 366	75 611
Materials and supplies	<u>41 513</u>	<u>55 886</u>
	<u>4 280 223</u>	<u>4 358 264</u>
 EXCESS REVENUE OVER EXPENDITURE	7 237 846	8 689 531
 SURPLUS, BEGINNING OF YEAR	<u>16 230 784</u>	<u>7 541 253</u>
 SURPLUS, END OF YEAR	<u><u>\$23 468 630</u></u>	<u><u>\$16 230 784</u></u>

RÉGIE DU CINÉMABALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$24 173 505	\$17 151 321
Accounts receivable and accrued interest	301 925	201 816
Gouvernement du Québec receivable	<u>123 835</u>	<u>196 660</u>
	24 599 265	17 549 797
Fixed assets (Note 3)	<u>294 455</u>	<u>354 613</u>
	<u><u>\$24 893 720</u></u>	<u><u>\$17 904 410</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$229 680	\$213 976
Provision for vacation time	278 332	291 397
Owing to the Gouvernement du Québec	136	42
Revenues collected in advance	<u>497 367</u>	<u>737 784</u>
	1 005 515	1 243 199
Provision for sick leave (Note 4)	<u>419 575</u>	<u>430 427</u>
	1 425 090	1 673 626
SURPLUS (Note 5)	<u>23 468 630</u>	<u>16 230 784</u>
	<u><u>\$24 893 720</u></u>	<u><u>\$17 904 410</u></u>
COMMITMENTS (Note 6)		
On behalf of the Régie, Jean Lebel Jean-Pierre Gagnon		

RÉGIE DU CINÉMANOTES TO FINANCIAL STATEMENTS
March 31, 2004**1. CONSTITUTION AND PURPOSE**

The Régie du cinéma is a body established by the Cinema Act (R.S.Q., c. C-18.1). Its functions are:

- to classify films;
- to publish regularly, by such means as it considers appropriate, information on the films classified;
- to periodically hold consultations on the classification of films;
- to issue, renew, suspend or revoke exhibitors' or distributors' licences;
- to supervise and monitor the sale, leasing, lending or exchange of video material, and to issue filing certificates;
- to supervise the administration of the chapter on cinema control and supervision and the regulations made under it and to inquire into its operation and how it is being complied with.

Under the Income Tax Act (R.S.C. 1985, c. 1, 5th supplement) and the Taxation Act (R.S.Q., c. I-3), the Régie is not subject to income tax.

2. ACCOUNTING POLICIES

The financial statements of the Régie were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of cash flows is not shown as it would not provide any useful additional information regarding the Régie's cash flow during the year.

Fixed assets

Fixed assets are recorded at cost and amortized over their service life using the straight-line method:

Office furniture and equipment	5 years
Computer equipment and software	3 years
Computer development	5 years

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Régie lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net
Office furniture and equipment	\$28 633	\$11 728	\$16 905
Computer equipment and software	334 359	225 371	108 988
Computer development	362 381	193 819	168 562
	<u>\$725 373</u>	<u>\$430 918</u>	<u>\$294 455</u>
			<u>\$354 613</u>

The acquisition of fixed assets for the fiscal year totalled \$86 699 (2003: \$52 506).

RÉGIE DU CINÉMANOTES TO FINANCIAL STATEMENT (cont'd)
March 31, 2004**4. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of the Régie participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Régie's contributions posted to operations for the fiscal year totalled \$96 157 (2003: \$100 527). The Régie's liability towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave

	2004	2003
Opening balance	\$430 427	\$356 499
Expenditures for the year	54 752	130 183
Benefits paid during the year	(65 604)	(56 255)
Closing balance	<u>\$419 575</u>	<u>\$430 427</u>

5. SURPLUS

As stipulated in section 144.3 of the Act respecting the cinema (R.S.Q., c. C-18.1), the amounts received by the Régie must be used to pay its obligations. Any surplus is paid into the Consolidated Revenue Fund on the dates and in the amounts determined by the Government.

6. COMMITMENTS

The Régie is committed, under long-term contracts ending on various dates up to April 30, 2007 for administrative services, photocopier rental and label purchases.

Minimum future payments are as follows:

2005	\$251 229
2006	215 157
2007	201 832
2008	<u>13 611</u>
	<u>\$681 829</u>

7. ADVANCES FROM THE MINISTER OF FINANCE

The Régie is authorized, under a Gouvernement du Québec Order-in-Council, to ask for one or more advances whose overall capital may not exceed \$300 000 to offset its short-term lack of liquid assets. Its advances bear interest at the National Bank of Canada prime rate and mature on March 31, 2006. At March 31, 2004, the Régie had not made use of these advances.

RÉGIE DU CINÉMA

NOTES TO FINANCIAL STATEMENT (cont'd)
March 31, 2004

8. RELATED PARTY TRANSACTIONS

The Régie has entered into an exchange of service agreement with the Ministère de la Culture et des Communications. Under this agreement, the Régie is mandated to inspect accredited bookstores in Québec and, in exchange, the Department agrees to provide the Régie with all services under its jurisdiction in the fields of human resource management. This exchange is not reflected in the financial statements.

In addition to the related party transactions disclosed in its financial statements, the Régie is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Régie did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

9. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

MANAGEMENT'S REPORT

The financial statements of the Régie du cinéma were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carries out periodic audits to ensure that the Régie's internal monitoring is adequate, ongoing and applied uniformly.

The Régie recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Régie's financial statements in accordance with generally the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Jean Lebel
President

Jean-Pierre Gagnon
Director, Administration

Montréal, June 30, 2004

RÉGIE DU CINÉMA**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Régie du cinéma as at March 31, 2004 and the statements of revenue and expenditure and surplus flows for the year then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these accounting principles have been applied on a basis consistent with that of the preceding year.

Marc Ouellet, CA
Principal Director
For Acting Auditor General of Québec

Québec, June 30, 2004

SIDBEC
(R.S.Q., c. E-14)

INCOME AND DEFICIT
for the year ended December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
REVENUE		
Interest	<u>11</u>	<u>13</u>
EXPENDITURE		
Interest on debts guaranteed by the shareholder	214	228
Administrative expenses	64	57
File settlement fees	10	48
Amortization of deferred financing costs	<u> </u>	<u>6</u>
	<u>288</u>	<u>339</u>
NET LOSS	(277)	(326)
DEFICIT, BEGINNING OF YEAR	<u>(693 328)</u>	<u>(693 002)</u>
DEFICIT, END OF YEAR	<u>(693 605)</u>	<u>(693 328)</u>

The notes are an integral part of the financial statements.

SIDBEC

BALANCE SHEET
as at December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash on hand	12	3
Short-term investments, at cost, 3%, maturing in January 2004	339	342
Commodity taxes and interest accrued	<u>3</u>	<u>9</u>
	<u>354</u>	<u>354</u>
LIABILITIES		
Accrued expenses	81	71
Debts guaranteed by the shareholder (Note 3)	<u>4 995</u>	<u>4 995</u>
	<u>5 076</u>	<u>5 066</u>
SHAREHOLDER'S EQUITY (NEGATIVE)		
Capital stocks (Note 4)	645 894	645 894
Contributed surplus (Note 5)	42 989	42 722
Deficit	<u>(693 605)</u>	<u>(693 328)</u>
	<u>(4 722)</u>	<u>(4 712)</u>
	<u>354</u>	<u>354</u>

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Charles E. Beaulieu, Administrator
Robert Després, Administrator

SIDBEC

CASH FLOWS
for the year ended December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
OPERATING ACTIVITIES		
Net loss	(277)	(326)
Non-cash items		
Amortization of deferred financing costs		6
Changes in assets and liabilities (Note 2)	<u>16</u>	<u>(25)</u>
Cash flows related to operating activities	<u>(261)</u>	<u>(345)</u>
FINANCING ACTIVITIES		
Repayment of debts guaranteed by Shareholders		(80)
Shareholder contribution	<u>267</u>	<u>266</u>
Cash flows related to financing activities	<u>267</u>	<u>186</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6	(159)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>345</u>	<u>504</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>351</u></u>	<u><u>345</u></u>
CASH AND CASH EQUIVALENTS		
Cash on hand	12	3
Short-term investments	<u>339</u>	<u>342</u>
	<u><u>351</u></u>	<u><u>345</u></u>

The notes are an integral part of the financial statements.

SIDBEC**NOTES TO FINANCIAL STATEMENTS**

as at December 31, 2003

(in thousands of dollars)

1. GOVERNING STATUTES AND NATURE OF OPERATIONS

Incorporated under the Companies Act (Québec) and governed in certain respects by a special act of the Province of Québec, Sidbec manages the assets and liabilities arising from the termination of operations in 1994. Sidbec is exempt from federal and provincial income tax.

2. CASH FLOW INFORMATION

Changes in assets and liabilities are as follows:

	2003	2002
Commodity taxes and interest accrued	6	2
Accrued interest	10	(27)
	<u>16</u>	<u>(25)</u>

Cash flows related to interest on operating activities are as follows:

	2003	2002
Interest paid	<u>214</u>	<u>240</u>

3. DEBTS GUARANTEED BY THE SHAREHOLDER

The Gouvernement du Québec has guaranteed the payment of principal and interest on the following debts:

	2003	2002
Loans, 4.25%, maturing April 1, 2004	<u>4 995</u>	<u>4 995</u>

4. CAPITAL STOCK

	2003	2002
Authorized:		
80 000 000 common shares with a par value of \$10 each		
Issued and fully paid:		
64 589 398 common shares	<u>645 894</u>	<u>645 894</u>

5. SURPLUS EQUITY

The Corporation received \$266 400 in 2003 and in 2002 from shareholders in order to meet its obligations.

SIDBEC**AUDITORS' REPORT**

To Sidbec shareholders

We have audited Sidbec's balance sheet as at December 31, 2003, the statement of income and deficit and the cash flow statement for the year then ended. These financial statements are the responsibility of Sidbec management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with auditing standards that are generally accepted in Canada. They require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In our opinion, these financial statements present fairly, in all material respects, Sidbec's financial position as at December 31, 2003 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada.

Raymond, Chabot, Grant, Thornton
Chartered Accountants

Montréal, January 22, 2004

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES
(R.S.Q., c. D-8.2)

INCOME AND DEFICIT
for the year ended December 31, 2003

	2003	2002
REVENUE (Note 3)		
Service delivery (Note 4)	\$16 735 305	\$14 027 174
Sales	4 841 397	4 725 433
Rent	1 337 587	1 324 022
Management income	1 510 610	1 184 374
Investment income	200 238	252 843
Other income	98 344	138 108
	<u>24 723 481</u>	<u>21 651 954</u>
EXPENDITURES (Note 3)		
Services to contractors	13 090 345	10 399 722
Salaries and fringe benefits	3 999 806	3 999 751
Purchases	2 265 249	2 150 477
Maintenance and repairs	1 076 797	1 006 312
Electricity	647 674	649 736
Taxes, licences and permits	651 395	615 393
Rental costs	117 808	119 839
Staff-related expenses	257 841	310 016
Insurance	227 904	179 708
Communications	184 676	166 686
Advertising	187 332	164 009
Office expenses	54 017	65 956
Roads equipment	684 882	620 684
Doubtful accounts	19 076	51 000
Share in the operation of a camp		101 944
Depreciation of fixed assets	430 374	371 463
Professional fees	341 561	359 986
Studies and market development	119 773	49 574
Other expenditures	100 617	366 395
Loss in value of investments	200 002	
(Gain) loss on transfer of investments	(71 125)	10 794
Gain on disposal of fixed assets	(216 910)	(4 013)
Share in results of satellite corporation (Note 7)	120 500	
Interest and bank charges	67 218	22 171
Interest on long-term debt	46 845	49 581
	<u>24 603 657</u>	<u>21 827 184</u>
NET INCOME (NET LOSS) (Note 3)	119 824	(175 230)
DEFICIT, BEGINNING OF YEAR	<u>(60 827 881)</u>	<u>(60 652 651)</u>
DEFICIT, END OF YEAR	<u><u>\$(60 708 057)</u></u>	<u><u>\$(60 827 881)</u></u>

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESBALANCE SHEET
as at December 31, 2003

	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets		
Cash on hand	\$195 647	\$1 067 658
Accounts receivable (Note 5)	4 608 000	5 996 939
Inventories (Note 6)	205 175	200 198
Prepaid expenses	<u>23 715</u>	<u>12 554</u>
	<u>5 032 537</u>	<u>7 277 349</u>
Investments (Note 7)	11 545 439	9 689 873
Fixed assets (Note 8)	2 880 080	2 441 547
Assets in the form of accrued benefits (Note 14)	<u>183 686</u>	<u>186 905</u>
	<u>14 609 205</u>	<u>12 318 325</u>
	<u>\$19 641 742</u>	<u>\$19 595 674</u>
LIABILITIES		
Current liabilities		
Short-term borrowing (Note 9)	\$1 025 000	
Accounts payable and accruals	4 357 888	\$5 417 573
Holdbacks on contracts	159 411	158 482
Instalment on long-term debt (Note 10)	<u>40 000</u>	<u>40 000</u>
	5 582 299	5 616 055
Long-term debt (Note 10)	<u>640 000</u>	<u>680 000</u>
	<u>6 222 299</u>	<u>6 296 055</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 11)	69 825 000	69 825 000
Contributed surplus	4 302 500	4 302 500
Deficit	<u>(60 708 057)</u>	<u>(60 827 881)</u>
	<u>13 419 443</u>	<u>13 299 619</u>
	<u>\$19 641 742</u>	<u>\$19 595 674</u>
CONTINGENCIES (Note 16)		
COMMITMENTS (Note 17)		

On behalf of the Board of Directors,
Michel Garon, Director
Jean-Claude Simard, Director

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**CASH FLOWS**

for the year ended December 31, 2003

	<u>2003</u>	<u>2002</u>
OPERATING ACTIVITIES		
Net (loss) income	\$119 824	\$(175 230)
Items not affecting liquid assets:		
Depreciation of fixed assets	430 374	371 463
Gain on disposal of fixed assets	(216 911)	(4 013)
Loss in value of investments	200 002	
(Gain) loss on disposal of investment	(71 125)	10 794
Share in the results of the satellite corporation	120 500	
Change in non-cash elements linked to operations (Note 12)	314 046	(1 302 348)
Pension expense	3 219	22 895
Cash flows (used for) provided by operating activities	<u>899 929</u>	<u>(1 076 439)</u>
INVESTMENT ACTIVITIES		
Acquisition of investments	(2 150 000)	(1 120 100)
Proceeds from disposal of investments	688 857	233 799
Acquisition of fixed assets	(1 584 407)	(807 595)
Proceeds from disposal of fixed assets	34 930	26 579
Contribution to fixed assets – Hydro-Québec	80 858	359 789
Contribution to fixed assets – Transports Canada	172 822	
Cash flows used for investment activities	<u>(2 756 940)</u>	<u>(1 307 528)</u>
FINANCING ACTIVITIES		
Bank loan	1 025 000	
Issue of common shares		1 000 000
Long-term debt repayment	(40 000)	(40 000)
Cash flows provided by financing activities	<u>985 000</u>	<u>960 000</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(872 011)	(1 423 967)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1 067 658</u>	<u>2 491 625</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$195 647</u></u>	<u><u>\$1 067 658</u></u>

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO FINANCIAL STATEMENTS
December 31, 2003**1. CONSTITUTION AND PURPOSE**

The Société de développement de la Baie-James (the Société) was established under the James Bay Region Development Act (R.S.Q., c. D-8.2). All of its shares are held by the Gouvernement du Québec. The purpose of the Société is to promote, from a sustainable development viewpoint, the territory's economic development, development and exploitation of natural resources, other than hydroelectric. It may initiate, support and participate in projects targeting these goals. Its mission also includes developing the territory under municipal jurisdiction where development and land use planning is concerned.

2. ACCOUNTING POLICIES

The Société's financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined according to the first in, first out (FIFO) method.

Investments

Portfolio investments in public and private corporations are recorded at acquisition cost less the decline in value, if deemed permanent.

The Société records its investments at consolidation value when its share in an issuing corporation's voting shares allows it to exercise significant influence over this satellite corporation's financial and administrative decisions.

Any lasting drop in value is decreased by the investments' book value.

Fixed assets

Fixed assets are recorded at cost minus contributions received from third parties and are depreciated over their estimated useful lives on a straight-line basis over the following terms:

Buildings and improvements to buildings owned	
for rental purposes	5, 10 and 20 years
Modular homes	10 years
Furniture, fixtures, equipment and infrastructures	5 years
Vehicles	3 years

Employee's fringe benefits

The Société records its obligations resulting from an employee fringe benefit plan and related expenses minus the plan's assets. To do so, the Société has adopted the following policies:

- The cost of retirement benefits and additional retirement benefits earned by employees is established through actuarial calculations using the accumulated benefit method, based on management's most likely hypotheses concerning plan investment yield forecasts, salary progression and mandatory employee retirement age.
- For the purposes of calculating the yield forecast for plan assets, these assets are evaluated at their fair value.

Tax status

Under the Income Tax Act, the Société de développement de la Baie-James is not subject to income tax. It is, however, subject to provincial tax on capital.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003

2. ACCOUNTING POLICIES (cont'd)
Cash flows

The Société's policy consists in presenting under cash and cash equivalents bank balances including bank overdrafts whose balances often fluctuate between an overdraft and available funds.

3. NET INCOME (LOSS) BY ACTIVITY

	2003		2002
	Revenue	Expenses	Net gain (loss)
Head office	\$24 614	\$1 682 557	\$(1 657 943)
Services	17 484 666	16 041 816	1 442 850
Development and investment	598 109	1 240 970	(642 861)
Real estate	1 453 171	1 572 952	(119 781)
Hotel and petroleum industry	4 946 011	4 057 990	888 021
Special	216 910	7 372	209 538
	<u>\$24 723 481</u>	<u>\$24 603 657</u>	<u>\$119 824</u>
			<u>\$(175 230)</u>

The Société records its revenue and expenditure by sector of activity, including the following:

- Head office activities
 - Management fees earned
 - Interest earnings
 - Interest expenses
 - Expenses related to the Matagami, Chibougamau and Radisson offices
 - Expenses related to administrative services, human resources and data processing
 - Expenses related to the board of directors, the presidency and the corporate secretary's office
 - Communication expenses
- Service activities
 - Management of transportation infrastructures
- Development and investment activities
 - Mining claims management
 - Management and income investments
 - Recovery of certain expenses
 - Gain or loss on disposal of investments
 - Economic development projects
 - Expenses related to the economic development and investment
- Real estate activities
 - Building operations
- Real estate, hotel and petroleum industry activities
 - Management of Auberge Radisson
 - Operation of km 381 rest stop

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003

3. NET INCOME (LOSS) BY ACTIVITY (cont'd)

- Special activities
 - Operation of km 257 rest stop (for 2002)
 - Gain or loss on transfer of fixed assets
 - Airport Infrastructure Assistance Program

4. SERVICE DELIVERY

The Société provides transportation infrastructure management services as follows:

	<u>2003</u>	<u>2002</u>
Related parties:		
Hydro-Québec	\$14 179 639	\$11 990 528
Ministère des Transports	2 161 782	2 036 646
Other	<u>393 884</u>	
	<u>\$16 735 305</u>	<u>\$14 027 174</u>

5. ACCOUNTS RECEIVABLE

	<u>2003</u>	<u>2002</u>
Accounts receivable		
Hydro-Québec	\$3 495 443	\$3 877 805
Ministère des Transports	126 723	551 507
Other	<u>1 004 910</u>	<u>1 669 479</u>
	4 627 076	6 098 791
Allowance for doubtful accounts	<u>19 076</u>	<u>148 794</u>
	4 608 000	5 949 997
Sales tax		<u>46 942</u>
	<u>\$4 608 000</u>	<u>\$5 996 939</u>

6. INVENTORIES

	<u>2003</u>	<u>2002</u>
Petroleum products	\$141 208	\$127 472
Other	<u>63 967</u>	<u>72 726</u>
	<u>\$205 175</u>	<u>\$200 198</u>

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003

7. INVESTMENTS

	2003	2002
Investment in a satellite corporation (33% share):		
1 share of Camp 257 S.E.C.	\$100	
Share in corporation's results		
Opening balance	100	
Acquisition of shares (98 shares)	315 000	\$100
Share in year's results	(120 500)	
Closing balance	194 600	100
Shares in public corporations:		
148 619 common shares of Arca Explorations inc.	1	1
5 593 278 common shares of Ressources Campbell inc. (542 958 in 2002)	5 746 191	569 648
94 231 common shares of Ressources Murgor inc.	24 500	24 500
100 000 common shares of Ressources Unifiées Oasis inc.	5 000	5 000
34 374 common shares of Globestar Mining Corp. (Corpo. TGW inc. in 2002)	20 329	22 399
301 333 common shares of McKenzie Bay International	420 470	500 000
740 740 common shares of Mines Aurizon Ltd.	1 000 000	
1 666 667 common shares of Ressources Stratéco inc.	250 000	
1 818 182 common shares of Ressources Sirios inc.	200 000	
	7 666 491	1 121 548
Shares in private companies:		
10 000 common shares of Ressources Oxford inc.		1
50 000 Class "A" of Exploration minière des Premières Nations Corp.		1
300 000 Class "A" of Lunehiver DMA inc.	100 000	300 000
20 000 common shares of Corporation Copper Rand inc.	2 000 000	5 750 000
35 167 Class "A" of Pourvoirie Mirage inc.	310 000	310 000
	2 410 000	6 360 002
Loans and advances: ¹		
Convertible debentures of Ressources MSV inc.		1 250 000
Interest receivable on convertible debentures of Ressources MSV inc.		150 000
Notes receivable from Hydro-Québec, interest-free, cashable in annual payments until 2008	97 872	114 184
Notes receivable from individuals, 5%, cashable in monthly payments ending in 2004	555	4 039
Loan to Lunehiver DMA inc.	75 000	
Loan to Camp KM 257 S.E.C.	310 921	
Convertible debentures of Pourvoirie Mirage inc.	190 000	690 000
Convertibles debentures of Rocmec International inc.	600 000	
	1 274 348	2 208 223
	\$11 545 439	\$9 689 873

1 Interest rates vary from 5 to 12%, and in some cases royalties apply, except for the note receivable from Hydro-Québec.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003**7. INVESTMENTS (cont'd)**

	2003	2002
Arca Explorations inc.	\$22 293	\$5 945
Ressources Campbell inc.	5 257 682	276 909
Ressources Murgor inc.	13 192	6 596
Ressources Unifiées Oasis inc.	10 000	5 000
McKenzie Bay International	1 152 600	605 644
Globestar Mining Corp.	20 968	23 463
Mines Aurizon Ltd.	1 459 257	
Ressources Stratéco inc.	266 667	
Ressources Sirios inc.	236 364	
	<u>\$8 439 023</u>	<u>\$923 557</u>

The Société converted \$3 750 000 of its investment in Corporation Copper Rand to Ressources MSV inc. debentures, which were then converted into 3 658 536 Ressources Campbell inc. shares (1 share = \$1 025). The Société also converted a debenture and the interest accumulated on \$1 442 876 into 1 407 684 Ressources Campbell inc. shares (1 share = \$1 025).

The Société transferred assets and liabilities of \$1 018 746 and \$735 078 respectively to Camp 257 S.E.C. The Société also invested \$100 000 cash in this entity and received 98 shares in Camp 257 S.E.C. evaluated at \$315 000 and a loan receivable from this entity in the amount of \$310 921. The gain realized by the Société through these exchanges totalled \$214 999.

The Société holds the following purchase warrants:

<u>Société</u>	<u>Number</u>	<u>Purchase price</u>	<u>Expiry date</u>	Share's market value at December 31, 2003
Ressources Stratéco	833 333	\$0.20	December 11, 2004	
		0.25	December 11, 2005	\$0.16
		0.15	December 19, 2004	
Ressources Sirios	909 091	0.17	or December 19, 2005	0.13
Les Mines Aurizon	4 946 011	1.60	August 21, 2005	1.97

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003**8. FIXED ASSETS**

	2003			
	Cost	Contributions ¹	Accumulated depreciation	Net
Land	\$71 029			\$71 029
Air terminal	6 595 574	\$6 595 574		
Buildings and improvement to buildings owned for rental purposes	7 467 784	745 688	\$4 573 755	2 148 341
Modular homes	1 251 149	645 143	408 082	197 924
Furniture and fixtures	2 455 395	641 238	1 469 789	344 368
Machinery and equipment	2 564 611	2 131 352	399 326	33 933
Vehicles	3 378 685	3 015 449	278 751	84 485
Infrastructures	91 000		91 000	
	<u>\$23 875 227</u>	<u>\$13 774 444</u>	<u>\$7 220 703</u>	<u>\$2 880 080</u>

	2002			
	Cost	Contributions ¹	Accumulated depreciation	Net
Land	\$71 029			\$71 029
Air terminal	6 595 574	\$6 595 574		
Buildings and improvement to buildings owned for rental purposes	6 568 034	745 688	\$4 348 814	1 473 532
Modular homes	1 579 468	659 654	453 976	465 838
Furniture and fixtures	2 213 737	641 238	1 385 648	186 851
Machinery and equipment	2 643 286	2 096 861	398 581	147 844
Vehicles	3 176 638	2 845 966	234 219	96 453
Infrastructures	91 000		91 000	
	<u>\$22 938 766</u>	<u>\$13 584 981</u>	<u>\$6 912 238</u>	<u>\$2 441 547</u>

Maintenance and operating expenses for the road linking Matagami to Radisson and Chisasibi, the Transtaiga Highway, the Némiscau road and the La Grande Rivière, Fontanges and Némiscau airports are assumed by Hydro-Québec and managed by a management committee composed of representatives of Hydro-Québec and the Société.

- 1 The contributions received from the Société d'énergie de la Baie James (SEBJ), Hydro-Québec and the Municipality of James Bay (MBJ) for fixed assets are recorded by reducing the latter's cost. The Société also posted \$3 136 598 received under a federal subsidy for the La Grande Rivière air terminal building, by reducing the cost incurred for it. In 2003, the Société received \$253 680 as contributions from the federal government (2002: \$359 789).

9. BANK BORROWING

The Société has an authorized bank borrowing of \$4 000 000. This bank borrowing bears interest at the prime rate and is renegotiable on April 30, 2004. At December 31, 2003, the interest rate was 4.5% (2002: 3%).

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003**10. LONG-TERM DEBT**

	<u>2003</u>	<u>2002</u>
Owed to the Financing Fund of the Gouvernement du Québec, 6.84%, repayable as of 2001 in annual instalments of \$40 000 until 2006 when the balance is due	\$680 000	\$720 000
Payment due within a year	<u>40 000</u>	<u>40 000</u>
	<u>\$640 000</u>	<u>\$680 000</u>

Instalments on the long-term debt over the two coming fiscal years amount to \$40 000 every fiscal year from 2004 to 2005 and \$600 000 in 2006.

11. CAPITAL-ACTIONS

	<u>2003</u>	<u>2002</u>
Authorized: 10 000 000 common shares with a par value of \$10 each		
Issued and paid up: 6 982 500 common shares	<u>\$69 825 000</u>	<u>\$69 825 000</u>

Société shares are part of the public domain and are assigned to the Minister of Finance.

12. CASH FLOWS

The change in non-cash elements linked to operations is as follows:

	<u>2003</u>	<u>2002</u>
Change in accounts receivable	\$1 388 940	\$(2 331 121)
Increase in inventories	(4 977)	(21 037)
Increase in prepaid expenses	(11 161)	(398)
Change in accounts payable and accruals	(1 059 685)	1 185 805
Change in withholdings on contracts	<u>929</u>	<u>(135 597)</u>
	<u>\$314 046</u>	<u>\$(1 302 348)</u>

The interest paid during the year ended December 31, 2003 totalled \$64 150 (2002: \$31 187).

13. PENSION PLAN

The Société offers its employees a defined-benefit retirement plan. The Société's policy is to maintain its contributions at a level enabling it to pay benefits. The Société undergoes an actuarial valuation every three years.

The retirement charge and obligation vis-à-vis accrued benefits are established using actuarial calculations based on management's most probable hypotheses and extrapolated based on the most recent actuarial valuation.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES
NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003
13. PENSION PLAN (cont'd)

Information related to the defined-benefit plan as at December 31 is as follows:

	2003	2002
Obligation in the form of accrued benefits	\$2 044 823	\$1 651 256
Fair value of plan assets	2 150 203	1 699 287
Capitalization situation – surplus	<u>\$105 380</u>	<u>\$48 031</u>
Assets in the form of accrued benefits	<u>\$183 686</u>	<u>\$186 905</u>

No provision was made for the net depreciation of assets in the form of accrued benefits. In fact, the Société intends to reduce its contributions for future fiscal years from these assets, thereby enabling it to very quickly absorb this benefit in coming fiscal years.

The significant actuarial assumptions the Société used to evaluate its obligations in the form of accrued benefits are the following (weighted averages as at December 31):

	2003	2002
Discount rate	6%	6%
Forecast rate of return on plan assets		
in the long term	6%	6%
Payment growth rate	4%	4%

Other information related to the defined-benefit plan is as follows:

	2003	2002
Charge for the year	\$124 354	\$88 251
Employer contributions	121 135	65 356
Employee contributions	66 430	51 617
Benefits paid	15 987	20 150

14. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value, given that they mature in the near future. The following chart shows the book value and fair value of the Société's long-term financial instruments:

	2003		2002	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Long-term investments:				
that can be estimated	\$7 666 491	\$8 439 023	\$1 121 548	\$923 557 ¹
that cannot be estimated ²	3 878 948		8 568 325	
Long-term debt (including short-term portion)	680 000	562 100	720 000	570 312

¹ The book value of long-term investments has not been reduced given that these investments were not subject to a lasting net depreciation.

² The fair value of these financial instruments cannot be estimated at a reasonable cost given the lack of markets for this type of investment.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2003

15. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, which are measured at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

16. CONTINGENCIES

As a signatory to the James Bay and Northern Québec Agreement, the Société has been subject to certain lawsuits related to the latter's application involving dissidents to the Agreement who seek its cancellation. Management feels that these lawsuits are unfounded and, consequently, no provision has been recorded in the books in this regard.

On February 26, 1993, Ressources MSV inc. (MSV), the Société and Westminer Canada Ltd. (Westminer) signed a compensation agreement to indemnify Westminer against all future environmental claims related to a mine site. The future reclamation of the mine site was estimated in 1994 at \$4 300 000 by a firm of engineering consultants and a fund was set up for this purpose. Westminer and MSV paid this amount. The amounts paid are held in trust and are not included in the financial statements. In 1999, a reassessment estimated site restoration costs to be \$3 212 050. The total amount of restoration work done since the creation of the environment fund is \$820 000. The value of the funds was \$4 272 431 at December 31, 2003. Société management believes that the funds accumulated are sufficient to proceed with restoration work to come. This agreement also states that Société may have to contribute 50% to any deficit or benefit 50% from any surplus once the restoration has been done. Moreover, when MSV shares were sold to Corporation Copper Rand inc., the latter pledged to respect MSV's commitments to pay the Société a royalty of \$0.375 per tonne of processed ore and an additional royalty of \$0.25 per tonne is the net worth per tonne is higher than \$70.

The Société owns land that requires decommissioning over the coming years. It is currently impossible for management to reasonably assess the costs and effects on the financial statements.

The Société has signed four agreements with Transport Canada under the Airport Infrastructure Assistance Plan for a minimum of \$3 082 242 for repairs to the La Grande Rivière airport. These agreements terminate in 2007, 2010, 2011 and 2018 and require the Société to commit to operating the said airport for 10 to 15 years. Should it fail to comply with this condition, it will have to repay an amount defined based on the remaining duration of the agreement. As at December 31, 2003, this amount was \$1 404 771.

17. COMMITMENTS

The Société is committed to a lease for office space expiring December 31, 2005, which calls for lease payments of \$78 072, i.e. \$39 036 by year.

Under an Order-in-Council of January 10, 1994, the Gouvernement du Québec transferred lands located in the James Bay territory to the Société. The conditions of this Order-in-Council require that, in the event of the subsequent sale of these lands, the profits be remitted to the Gouvernement du Québec.

18. COMPARATIVE FIGURES

Certain 2002 figures have been reclassified to comply with the presentation adopted in 2003.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**MANAGEMENTS' REPORT**

The financial statements of the Société de développement de la Baie-James were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. It also involves guaranteeing that the financial information presented elsewhere in the annual report complies with that of the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls and has implemented an internal auditing program. This enables it to provide reasonable assurance that assets are safeguarded and that the accounting records constitute an adequate basis for objective, reliable financial statements that accurately represent the Société's financial position and operations. The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors is responsible for examining and approving the financial statements and for overseeing the manner in which management performs its financial reporting duties.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with management to discuss any matter related to his audit.

Jean-Claude Simard
President and Chief Executive Officer

Chibougamau, March 5, 2004

AUDITORS' REPORT

To the Minister of Finance

I have audited the balance sheet of the Société de développement de la Baie-James as at December 31, 2003 and the statement of income and deficit and the statement of cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at December 31, 2003 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 5, 2004

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA ZONE DE COMMERCE
INTERNATIONAL DE MONTRÉAL À MIRABEL**
(R.S.Q., c. S-10.0001)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Interest on revenue	\$14 539	\$40 837
CITA* contribution to ACCORD project	<u>25 000</u>	<u>25 000</u>
	<u>39 539</u>	<u>65 837</u>
EXPENDITURE		
Operating and administrative expenses (Note 3)	270 404	534 593
Salaries and fringe benefits	455 403	741 192
Severance pay	55 823	
Depreciation of fixed assets	<u>104 768</u>	<u>114 392</u>
	<u>886 398</u>	<u>1 390 177</u>
EXCESS EXPENDITURE OVER REVENUE	(846 859)	(1 324 340)
SURPLUS, BEGINNING OF YEAR	<u>1 375 287</u>	<u>2 699 627</u>
SURPLUS, END OF YEAR	<u><u>\$528 428</u></u>	<u><u>\$1 375 287</u></u>

* Centre d'innovation en transport avancé (CITA)

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA ZONE DE COMMERCE
INTERNATIONAL DE MONTRÉAL À MIRABEL**

BALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$493 735	\$435 863
Short-term investment, at cost		798 080
Accounts receivable – related		30 000
Other receivables	225	434
Prepaid expenses	<u>9 252</u>	<u>14 244</u>
	503 212	1 278 621
Fixed assets (Note 4)	<u>135 300</u>	<u>239 573</u>
	<u><u>\$638 512</u></u>	<u><u>\$1 518 194</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$110 084	\$130 407
Accounts payable and related accruals		12 500
	<u>110 084</u>	<u>142 907</u>
SURPLUS	<u>528 428</u>	<u>1 375 287</u>
	<u><u>\$638 512</u></u>	<u><u>\$1 518 194</u></u>
COMMITMENT (Note 5)		

On behalf of the Board of Directors,
Daniel Laplante

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA ZONE DE COMMERCE
INTERNATIONAL DE MONTRÉAL À MIRABEL**

NOTES TO FINANCIAL STATEMENTS
as at March 31, 2004

1. CONSTITUTION AND PURPOSE

The Société de développement de la Zone de commerce international de Montréal à Mirabel is a legal body, an agent of the State, established under and governed by the Act respecting the Société de développement de la Zone de commerce international de Montréal à Mirabel (R.S.Q., c. S-10.0001).

Its purpose is to promote the development of Mirabel's airport and airport-related infrastructures by developing and operating Montréal's international trading zone at Mirabel, in order to contribute to the economic growth of the Mirabel area, Greater Montréal and Québec as a whole. Under federal and provincial taxation legislation, the Société is not subject to income tax.

2. ACCOUNTING POLICIES

The financial statements of the Société were prepared by management in keeping with the accounting principles that are generally recognized in Canada. These statements include amounts based on best judgements and estimates. The cash flow statement is not included since it does not provide additional information that is useful for understanding cash flows during the year.

Fixed assets

Fixed assets are recorded at cost and amortized over their service life according to the straight-line method and the following rates:

Data processing equipment, computer equipment and development	33 1/3%
Office furniture and equipment	20%
Leasehold improvements	20%

3. OPERATING AND ADMINISTRATIVE EXPENSES

	2004	2003
Rent	\$52 429	\$52 429
Travelling, representation, advertising and promotion	40 531	319 805
Professional fees	117 908	82 580
Office expenses and administrative expenses	59 536	79 779
	<u>\$270 404</u>	<u>\$534 593</u>

4. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net value
Computer software, equipment and development	\$69 206	\$65 201	\$4 005
Office furniture and equipment	39 165	26 823	12 342
Leasehold improvements	419 835	300 882	118 953
	<u>\$528 206</u>	<u>\$392 906</u>	<u>\$135 300</u>
			<u>\$239 573</u>

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA ZONE DE COMMERCE
INTERNATIONAL DE MONTRÉAL À MIRABEL**

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004

5. COMMITMENT

The Société is committed under a lease with the Société immobilière du Québec ending in August 2005 for administrative offices.

Minimum future payments are as follows:

2005	\$52 429
2006	<u>21 845</u>
	<u>\$74 274</u>

6. FINANCIAL INSTRUMENTS

The fair value of financial instruments is equivalent to their book value, given that they mature in the near future.

7. RELATED PARTY TRANSACTIONS

The Société received employee loans from government agencies. The fair value of these services, received free of charge \$47 089 (2003: \$58 152) and assumed by the Société, represents \$47 656 (2003: \$58 152).

In addition to the related party transactions disclosed in its financial statements, measured at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA ZONE DE COMMERCE
INTERNATIONAL DE MONTRÉAL À MIRABEL****MANAGEMENT'S REPORT**

The financial statements of the Société de développement de la Zone de commerce international de Montréal à Mirabel were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Daniel Laplante
Director General

Mirabel, June 21, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société de développement de la Zone de commerce international de Montréal à Mirabel as at March 31, 2004 and the statement of revenue and expenditure and surplus for the year the ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting policies used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of its operations and cash flows for the year the ended, in accordance with the accounting policies that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 21, 2004

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
(R.S.Q., c. S-10.002)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004

	2004	2003
FINANCIAL MEASURES		
REVENUE		
Gouvernement du Québec subsidies (Note 3)	\$47 468 083	\$45 012 904
Interest on investments and loans	1 737 394	1 567 919
Gain on disposal of shares	252 200	
Amounts recovered on investment and assistance repayable under financial assistance programs (Note 4)	874 234	1 041 370
Loan guarantee fees (Note 5)	1 061 692	1 061 786
Tax credit management fees	1 762 949	1 468 571
Other revenue	74 193	63 642
	53 230 745	50 216 192
EXPENDITURE		
Financial assistance programs (Note 6):		
Film and television productions	26 751 008	18 301 434
Variety shows and disks, books, art trades and multimedia	7 329 227	9 593 809
Book and specialized edition	3 733 156	5 100 482
Art trades	2 404 701	2 857 789
Multimedia	53 800	1 541 163
International affairs	3 413 917	3 604 260
	43 685 809	40 998 937
Allowance for bad debts and for losses (Note 7)	1 335 480	1 092 043
Administrative expenses (Note 8)	8 544 531	8 634 086
Interest on debts	184 252	5 545
	53 750 072	50 730 611
LOSS FROM MANAGEMENT OF FINANCIAL MEASURES	(519 327)	(514 419)
IMMOVABLE CULTURAL PROPERTY		
REVENUE		
Gouvernement du Québec subsidy (Note 3)	2 759 375	2 714 145
Rent and other	1 407 774	1 311 405
Interest on short-term investments	23 787	15 927
	4 190 936	4 041 477
EXPENDITURE		
Operating and administrative expenses (Note 9)	2 962 270	2 997 405
Interest on debts	1 045 165	1 084 912
	4 007 435	4 082 317
GAIN (LOSS) FROM MANAGEMENT OF IMMOVABLE CULTURAL PROPERTY	183 501	(40 840)
Amounts carried forward	\$(335 826)	\$(555 259)

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLESREVENUE AND EXPENDITURE AND SURPLUS (cont'd)
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
Amounts brought forward	<u>\$(335 826)</u>	<u>\$(555 259)</u>
INVESTMENTS		
Gouvernement du Québec subsidy (Note 3)	2 600 000	
Investment income (loss) from limited partnerships	(13 597)	840 135
Permanent loss of value on investment in a limited partnership	(2 600 000)	
Interest costs on long-term Gouvernement du Québec advance		546 249
	<u>(13 597)</u>	<u>293 886</u>
INVESTMENT INCOME (LOSS)		
NET LOSS	(349 423)	(261 373)
SURPLUS, BEGINNING OF YEAR	<u>2 703 603</u>	<u>2 964 976</u>
SURPLUS, END OF YEAR	<u><u>\$2 354 180</u></u>	<u><u>\$2 703 603</u></u>

The notes to the financial statements are an integral of these presents.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
BALANCE SHEET
 as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash on hand	\$1 273 190	\$3 164 240
Term deposits (Note 10)	14 437 020	9 274 056
Loans and other financial assistance (Note 11)	17 047 454	20 728 747
Assistance repayable (Note 6)	1 780 858	1 907 782
Accounts receivable and accrued interest	629 067	466 563
Term notes, without interest	642 200	
Gouvernement du Québec subsidies receivable	24 204 774	19 068 096
Prepaid expenses and advances on commitments	411 232	474 502
Investment in limited partnerships (Note 12)	15 376 400	18 062 231
Fixed assets (Note 13)	<u>17 653 902</u>	<u>17 798 458</u>
TOTAL ASSETS	<u><u>\$93 456 097</u></u>	<u><u>\$90 944 675</u></u>
LIABILITIES		
Bank loan (Note 14)	\$1 974 188	\$1 048 701
Accounts payable and accruals	1 869 716	2 022 667
Interest accrued on long-term advance from the Gouvernement du Québec		84 512
Accrued interest on long-term debts	424 026	352 069
Amounts payable under financial assistance programs	12 841 957	12 271 874
Cumulated provisions for losses on loan guarantees related to business financing (Note 7)	1 085 919	1 169 494
Deferred revenue (Note 15)	17 896 406	15 945 228
Long-term Gouvernement du Québec advance (Note 16)	18 000 000	18 000 000
Long-term debts (Note 17)	<u>16 759 705</u>	<u>17 096 527</u>
	<u>70 851 917</u>	<u>67 991 072</u>
EQUITY		
Capital (Note 18)	19 500 000	19 500 000
Contributed surplus (Note 19)	750 000	750 000
Surplus	<u>2 354 180</u>	<u>2 703 603</u>
	<u>22 604 180</u>	<u>22 953 603</u>
TOTAL LIABILITIES AND EQUITY	<u><u>\$93 456 097</u></u>	<u><u>\$90 944 675</u></u>

The notes to the financial statements are an integral of these presents.

COMMITMENTS (Note 24)

CONTINGENCIES (Note 25)

On behalf of the Board of Directors,
 Pierre Lafleur
 Louise Bérubé

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**CASH FLOWS**

for the year ended March 31, 2004

	2004	2003
OPERATING ACTIVITIES		
Net loss	\$(349 423)	\$(261 373)
Adjustments to determine cash flow:		
Gain on disposal of shares (Note 20)	(252 200)	
Bad debts related to interim financing of tax credits	101 962	413 643
Provision for bad debts linked to assistance repayable	(17 013)	179 903
Allowance for bad debts and for losses	1 335 480	1 092 043
Loss on disposal of fixed assets		3 009
Depreciation of fixed assets	1 339 574	1 214 087
(Revenue) loss of investment in limited partnerships	13 597	(840 135)
Permanent loss of value on investment in a limited partnership	2 600 000	
	4 771 977	1 801 177
Change in non-cash items related to operating activities:		
Accounts receivable and accrued interest	(162 504)	260 629
Gouvernement du Québec subsidies receivable	(5 136 678)	(4 799 478)
Prepaid expenses and advances on commitments	63 270	(38 556)
Accounts payable and accruals	(152 951)	449 286
Accrued interest on long-term		
Gouvernement du Québec advance	(84 512)	(322 181)
Interest accrued on the long-term debt	71 957	(20 484)
Amounts to pay under financial assistance programs	570 083	3 380 343
Deferred revenue	1 849 216	490 469
	(2 982 119)	(599 972)
Cash flows provided by operating activities	1 789 858	1 201 205
INVESTMENT ACTIVITIES		
Loans and other financial assistance	(13 336 410)	(12 800 707)
Assistance repayable	(416 842)	(1 382 294)
Restoration of fixed assets		(842 790)
Acquisition of fixed assets	(1 195 018)	(999 947)
Distribution of share in the performance of limited partnerships	72 234	853 208
Repayment of loans and other financing assistance	15 208 648	10 962 197
Recovery of assistance repayable	560 779	568 049
Cash flows used for investment activities	893 391	(3 642 284)
Amounts carried forward	\$2 683 249	\$(2 441 079)

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

CASH FLOWS (cont'd)
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
Amounts brought forward	<u>\$2 683 249</u>	<u>\$(2 441 079)</u>
FINANCING ACTIVITIES		
Bank loan	925 487	1 048 701
Long-term debt	416 308	3 953 591
Repayment of long-term debt	<u>(753 130)</u>	<u>(753 129)</u>
Cash flows provided by financing activities	<u>588 665</u>	<u>4 249 163</u>
INCREASE IN CASH AND CASH EQUIVALENTS	3 271 914	1 808 084
CASH AND CASH EQUIVALENT, BEGINNING OF YEAR	<u>12 438 296</u>	<u>10 630 212</u>
CASH AND CASH EQUIVALENT, END OF YEAR (Note 20)	<u><u>\$15 710 210</u></u>	<u><u>\$12 438 296</u></u>

The notes to the financial statements are an integral of these presents.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLESNOTES TO FINANCIAL STATEMENTS
March 31, 2004

1. INCORPORATING STATUTE AND OBJECTIVE

The Société de développement des entreprises culturelles (SODEC) is a legal person established and governed by the Act respecting the Société de développement des entreprises culturelles (R.S.Q., c. S-10.002). Under the Income Tax Act (R.S.C. 1985, c. 1, 5th supplement) and the Taxation Act (R.S.Q., c. 1-3), the Société is not subject to income tax.

Its purpose is to promote and support, in all regions of Québec, the establishment and development of cultural enterprises, including the media, and to help improve the quality of goods and services and their competitiveness in Québec, the rest of Canada and abroad. The Société is also responsible for recognizing works as Québec cinema in accordance with the standards set forth in government regulations under the Cinema Act (R.S.Q., c. C-18.1).

The Société owns immovable cultural property acquired from the Minister of Transport in 1989. The Société may also, with the Government's authorization, acquire, restore, renovate, manage or operate buildings.

2. MAJOR ACCOUNTING POLICIES

The financial statements of the Société were prepared in accordance with the accounting principles that are generally accepted in Canada. For this, management must make estimates and formulate hypotheses that affect the amounts presented in the financial statements. The main accounting policies adopted for the preparation of these financial statements are summarized below.

Loans and other financial assistance

Loans and other financial assistance include investments made by the Société under its business financing programs. These investments can take the form of stock purchases, loans or investments in projects are recorded at face value, plus interest accrued receivable, minus the cumulated provision for bad debts.

A loan is classified doubtful when the quality of the credit has deteriorated to the point that the Société is no longer reasonably certain of recovering all capital and interest. When a loan becomes doubtful, the recognition of interest income ceases and the Société reduces this participation by posting a cumulated provision for bad debts.

Loan guarantees appear as contingencies in the Société's financial statements. The loans resulting from the performance of loan guarantees related to an enterprise's financing are recorded to the Société's assets once the latter has approved the claim produced by the lending financial institution.

Cumulated provision and contribution for bad debts and losses

The cumulated provision for bad debts and losses is maintained at a level deemed adequate to absorb the bad debts and losses in the Société's portfolio. It is increased by the annual provision, which is posted to results, and reduced by the amount of the write-offs. The cumulated provision for bad debts and losses includes specific provisions and a general provision.

The specific provisions are established for each loan. The book value of a loan is rolled back to its estimated realizable value by discounting projected future cash flows.

The general provision is established for loan guarantees related to business financing. The amount of the general provision is estimated based on past losses.

The contribution for losses represents an amount cashed to absorb potential losses resulting from the loan guarantee for business financing. Should the contingency or loan guarantee become doubtful, the contribution will be posted to results as revenue in the fiscal year in which the losses were disclosed.

Losses related to the guarantees granted under interim tax credit funding programs are refundable by the Gouvernement du Québec.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

2. MAJOR ACCOUNTING POLICIES (cont'd)

Assistance repayable and cumulated provision for bad debts

Assistance repayable is financial assistance linked to a predefined repayment obligation of a minimum duration of two years and generally not exceeding five years. This assistance is recorded in the balance sheet at face value minus a cumulated provision for bad debts. This cumulated provision is established by examining the probability of recovering each case of repayable assistance based on past losses. The annual variation in the cumulated provision is posted to results as program expenditures.

Investment in limited partnerships

The investment in a limited partnership as a limited partner is recorded at acquisition cost. When the investment suffers a lasting decline in value, the book value is reduced. This reduction is charged directly to the year-end statement.

Investment in a limited partnership subject to significant influence as a limited partner and general partner is recorded on an equity basis.

Fixed assets

Fixed assets are recorded at cost and amortized over their estimated service life using the straight-line method. The cost of restoration work includes materials and equipment, direct labour, indirect costs and interim financing costs during the work.

Restoration work	25 years
Major repairs	10 years
Office furniture	10 years
Equipment	5 years
Data processing equipment and software	from 4 to 7 years
Leasehold improvements	term of lease

Works of art and restoration work in progress are not depreciated.

Deferred subsidies

Specific subsidies received for financial assistance programs and for any other project are deferred and posted to results as revenues in conjunction with related commitments.

Revenue

Recovery of investment and assistance repayable related to a predefined repayable obligation is posted to results when cashed or payable.

Financial assistance programs

Financial assistance awarded in the form of subsidies, investments and refundable aid, other than that related to a predefined repayment obligation, is posted to results as program expenditures. These costs are recorded in the fiscal year in which they are authorized and when the beneficiary has met the eligibility criteria.

When the terms and conditions governing the financial assistance are not respected, the project cancellation is recorded in the fiscal year during which the facts were disclosed.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances and short-term investments maturing within three months of the date they were acquired.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

3. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2004	2003
SUBSIDIES GRANTED		
Financial measures		
Operations	\$3 109 131	\$2 852 000
Debt related to financial assistance programs	184 252	5 545
Financial assistance programs:		
Film and television productions	28 192 453	18 828 100
Variety shows and disks	7 913 091	9 974 600
Books and specialized edition	3 931 059	5 280 170
Art trades	2 460 414	2 922 930
Multimedia	50 000	1 600 000
International affairs	4 064 783	3 900 000
Specific assistance		175 000
Immovable cultural property		
Operations	1 008 900	1 008 900
Debts related to fixed assets	2 148 898	2 198 812
Investments		
Specific assistance	2 600 000	
	<u>55 662 981</u>	<u>48 746 057</u>
SUBSIDIES BROUGHT FORWARD AT THE BEGINNING OF THE YEAR		
Financial measures		
Financial assistance programs:		
Film and television productions	1 791 145	1 172 463
Variety shows and disks	334 043	338 185
Books and specialized edition	(18 884)	136 941
Art trades	38 101	83 493
Multimedia	58 837	
International affairs	53 281	
Immovable cultural property		
Debts related to immovables	12 610 214	12 116 647
	<u>14 866 737</u>	<u>13 847 729</u>
SUBSIDIES BROUGHT FORWARD AT YEAR-END		
Financial measures		
Financial assistance programs:		
Film and television productions	(3 097 590)	(1 791 145)
Variety shows and disks	(839 236)	(334 043)
Books and specialized edition	(339 369)	18 884
Art trades	(80 724)	(38 101)
Multimedia		(58 837)
International affairs	(336 704)	(53 281)
Immovable cultural property		
Debts related to immovables	(13 008 637)	(12 610 214)
	<u>(17 702 260)</u>	<u>(14 866 737)</u>
	<u>\$52 827 458</u>	<u>\$47 727 049</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

3. GOUVERNEMENT DU QUÉBEC SUBSIDIES (cont'd)

The subsidies break down as follows:

	2004	2003
Financial measures	\$47 468 083	\$45 012 904
Immovable cultural property	2 759 375	2 714 145
Investments	2 600 000	
	<u>\$52 827 458</u>	<u>\$47 727 049</u>

4. AMOUNTS RECOVERED ON INVESTMENTS AND ASSISTANCE REPAYABLE UNDER FINANCIAL ASSISTANCE PROGRAMS

	Investments	Assistance repayable	Total	Total
		2004		2003
Film and television productions	\$455 784	\$171 607	\$627 391	\$623 301
Variety shows and disks		41 200	41 200	84 871
Books and specialized edition		6 110	6 110	9 000
Multimedia		42 568	42 568	67 909
International affairs		156 965	156 965	256 289
	<u>\$455 784</u>	<u>\$418 450</u>	<u>\$874 234</u>	<u>\$1 041 370</u>

5. GUARANTEE FEES

	2004	2003
Guarantee fees related to enterprise financing	<u>\$676 413</u>	<u>\$692 421</u>
Guarantee fees related to interim tax credit financing	421 711	476 438
Bad debts linked to interim tax credit financing	(101 962)	(413 643)
Deficit of fee income over operating expenses (Note 15)	65 530	306 570
	<u>385 279</u>	<u>369 365</u>
	<u>\$1 061 692</u>	<u>\$1 061 786</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

6. FINANCIAL ASSISTANCE PROGRAMS AND ASSISTANCE REPAYABLE

	2004	
	Film and television productions	Variety shows and disks
EXPENDITURE – FINANCIAL ASSISTANCE PROGRAMS		
Investments – selective assistance	\$22 577 708	
Investments – corporate assistance	1 460 000	
Subsidies	2 585 818	\$7 470 444
Assistance repayable unrelated to predefined repayment obligations	361 148	
Provision for bad debts		(66 352)
Cancellations and amounts recovered	(740 717)	(100 414)
Other	507 051	25 549
	<u>\$26 751 008</u>	<u>\$7 329 227</u>

	2004	
	Film and television productions	Variety shows and disks
ASSETS – ASSISTANCE REPAYABLE		
Opening balance		\$635 342
Assistance repayable related to predefined repayment obligations granted in the year		22 318
Amounts recovered		(64 702)
Cancellations		
Write-offs		7 000
		<u>599 958</u>
Cumulated provision for bad debts		<u>(2 232)</u>
Closing balance		<u>\$597 726</u>

2004					2003
Books and specialized edition	Art trades	Multimedia	International affairs	Total	Total
				\$22 577 708	\$15 852 605
				1 460 000	225 000
\$3 673 957	\$2 408 575	\$50 000	\$2 361 274	18 550 068	23 288 124
			931 476	1 292 624	1 392 045
35 350	(13 090)		27 079	(17 013)	179 903
	(753)		(21 776)	(863 660)	(788 273)
23 849	9 969	3 800	115 864	686 082	849 533
<u>\$3 733 156</u>	<u>\$2 404 701</u>	<u>\$53 800</u>	<u>\$3 413 917</u>	<u>\$43 685 809</u>	<u>\$40 998 937</u>

2004					2003
Books and specialized edition	Art trades	Multimedia	International affairs	Total	Total
\$845 972	\$154 900		\$550 864	\$2 187 078	\$1 472 893
			394 524	416 842	1 382 294
(206 071)	(27 488)		(262 518)	(560 779)	(558 866)
(50 000)				(43 000)	(9 183)
589 901	127 412		682 870	2 000 141	(100 060)
					2 187 078
(74 513)	(2 400)		(140 138)	(219 283)	(279 296)
<u>\$515 388</u>	<u>\$125 012</u>		<u>\$542 732</u>	<u>\$1 780 858</u>	<u>\$1 907 782</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

7. CUMULATED PROVISION AND CONTRIBUTION FOR BAD DEBTS AND LOSSES

	2004	2003
Opening balance	<u>\$4 856 424</u>	<u>\$4 090 141</u>
Write-offs during the year:		
Loans granted by the Société	462 401	301 279
Loans resulting from the fulfilment of loan guarantees related to business financing	<u>24 481</u>	<u>24 481</u>
	<u>462 401</u>	<u>325 760</u>
Allowance for the year:		
Loans granted by the Société	1 205 814	612 385
Loans resulting from the fulfilment of loan guarantees related to business financing	213 241	197 641
Loan guarantees related to business financing	<u>(83 575)</u>	<u>282 017</u>
	<u>1 335 480</u>	<u>1 092 043</u>
Closing balance	<u>\$5 729 503</u>	<u>\$4 856 424</u>

The accumulated allowance for bad debts and for losses breaks down as follows:

	2004	2003
Loans granted by the Société (Note 11)	\$4 073 032	\$3 329 619
Loans resulting from the fulfilment of loan guarantees related to business financing (Note 11)	<u>570 552</u>	<u>357 311</u>
	4 643 584	3 686 930
Loan guarantees related to business financing *	<u>1 085 919</u>	<u>1 169 494</u>
	<u>\$5 729 503</u>	<u>\$4 856 424</u>

* Includes the \$375 000 contribution for losses on the loan guarantee related to business financing.

8. ADMINISTRATIVE EXPENSES

	2004	2003
Salaries and fringe benefits	\$6 829 133	\$6 813 055
Professional fees	204 263	187 704
Travel, representation and conventions	112 797	179 949
Rent	593 293	584 843
Insurance	29 700	23 319
Stationery and office expenses	354 434	399 507
Advertising and promotion	97 371	98 526
Loss on disposal of fixed assets		3 009
Depreciation of fixed assets	284 104	257 481
Other expenses	<u>39 436</u>	<u>86 693</u>
	<u>\$8 544 531</u>	<u>\$8 634 086</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

9. IMMOVABLE CULTURAL PROPERTY - OPERATING AND ADMINISTRATIVE EXPENSES

	2004	2003
Salaries and fringe benefits	\$480 775	\$429 769
Professional fees	94 364	84 133
Travelling, representation and conventions	8 293	8 015
Taxes	408 680	445 609
Insurance	129 775	114 815
Electricity and heating	244 074	254 276
Maintenance and repairs	570 573	658 408
Stationery and office expenses	32 692	42 753
Depreciation of fixed assets	1 055 470	956 606
Other expenses	(62 426)	3 021
	<u>\$2 962 270</u>	<u>\$2 997 405</u>

10. TERM DEPOSITS

Term deposits comprise commercial promissory notes and bankers' acceptances. They are recorded at cost and bear interest at rates varying from 2.14% to 2.35%.

11. LOANS AND OTHER FINANCIAL ASSISTANCE

	2004			2003
	Amount	Allowance for losses (Note 7)	Net amount	Net amount
Common shares with voting rights	\$450 000		\$450 000	\$450 000
Common, participating shares with no voting rights				390 000
Loans	16 081 040	\$1 236 581	14 844 459	18 068 814
Doubtful loans				
Loans granted by the Société	4 443 767	2 836 451	1 607 316	1 700 699
Loans resulting from the fulfilment of guarantees related to business	716 231	570 552	145 679	119 234
	\$21 691 038	\$4 643 584	\$17 047 454	\$20 728 747

All loans awarded by the Société bear interest at a fluctuating rate. The interest rate in effect for loans at March 31, 2004, calculated using a weighted average, is 6.20%, i.e. the prime rate plus 1.95%.

These loans, apart from doubtful loans, mature during fiscal years ending March 31:

2005	\$8 379 173
2006	2 096 346
2007	1 002 702
2008	1 232 065
2009	155 000
2010 and after	1 979 173
	<u>\$14 844 459</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

12. INVESTMENT IN LIMITED PARTNERSHIPS

	2004	2003
Participation, at cost, as a sponsor in a limited partnership whose activity is to invest in undertakings working in the field of culture	\$7 400 000	\$10 000 000
Participation, at consolidation value, as a sponsor and sponsored party in a limited partnership whose activity is to offer cultural undertakings specialized financing tools	7 976 400	8 062 231
	<u>\$15 376 400</u>	<u>\$18 062 231</u>

13. FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net amount	Net amount
Restoration work	\$17 658 766	\$3 546 303	\$14 112 463	\$13 986 676
Major repairs	3 814 058	1 691 630	2 122 428	1 857 132
Office furniture	492 741	266 502	226 239	257 400
Equipment	215 586	202 896	12 690	33 267
Data processing equipment and software	2 094 727	1 231 510	863 217	747 354
Leasehold improvements	435 634	167 567	268 067	304 782
Work of art	48 798		48 798	48 798
Restoration work in progress				563 049
	\$24 760 310	\$7 106 408	\$17 653 902	\$17 798 458

14. CREDIT LINES

The Société has a \$2 000 000 credit line authorized by Gouvernement du Québec Order-in-Council with a financial institution. This credit line bears interest at the prime rate for a term that may not exceed one year.

The Société also has a \$1 390 000 credit line in capital and interest with a financial institution to do major restoration to houses belonging to its housing stock and a \$498 900 credit line in capital and interest for keeping buildings belonging to its housing stock in good condition. These credit lines are authorized by Gouvernement du Québec Orders-in-Council, are renewable annually and bear interest at the prime rate.

The Société is authorized by Québec government order-in-council to contract short-term borrowings or use its credit line for an amount not to exceed \$249 400 to keep buildings belonging to its housing stock in good condition. The borrowings may be contracted with a financial institution or the Financing Fund of the Gouvernement du Québec and bear interest at a variable or fixed rate, without exceeding the prime rate, for a term that may not exceed one year.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

15. DEFERRED REVENUE

	2004	2003
Interim financing of tax credits (Note 25 a)		
Opening balance	\$586 878	\$446 364
Net amount of write-offs / receipts (disbursements) on files in default	(730 016)	447 084
Deficiency of fee earnings over operating expenses	(65 530)	(306 570)
Closing balance	(208 668)	586 878
Deferred subsidies (Note 3)	17 702 260	14 866 737
Other deferred revenue	402 814	491 613
	<u>\$17 896 406</u>	<u>\$15 945 228</u>

16. LONG-TERM GOUVERNEMENT DU QUÉBEC ADVANCES

	2004	2003
Gouvernement du Québec advance, bearing interest at the rate of return on the investment in the limited partnership less the equivalent of 35% of this return, payable when the limited partnership winds up or no later than December 31, 2006	\$10 000 000	\$10 000 000
Gouvernement du Québec advance, bearing interest at the rate of return on the investment in the limited partnership up to an annual maximum equal to the prime rate, payable when the limited partnership winds up or no later than December 31, 2011	8 000 000	8 000 000
	<u>\$18 000 000</u>	<u>\$18 000 000</u>

17. LONG-TERM DEBTS

	2004	2003
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 9.5%, repayable in annual instalments of \$339 736, until April 1, 2004 and a final instalment of \$5 435 776 on April 1, 2005 whose payment (capital and interest) is guaranteed by the Gouvernement du Québec	\$5 775 512	\$6 115 248
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 6.77%, repayable in annual instalments of \$413 393 until February 16, 2005 and a final instalment of \$6 200 901 on February 16, 2006 whose payment (capital and interest) is guaranteed by a movable hypothec without delivery on the amount of the subsidy foreseen by the repayment of this loan	6 614 294	7 027 688
Amounts carried forward	<u>\$12 389 806</u>	<u>\$13 142 936</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

17. LONG-TERM DEBTS

	2004	2003
Amounts brought forward	\$12 389 806	\$13 142 936
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.654%, repayable in annual instalments of \$790 718 until October 1, 2008 whose payment (capital and interest) is guaranteed by a movable hypothec without delivery on the amount of the subsidy foreseen by the repayment of this loan	3 953 591	3 953 591
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.837%, repayable in annual instalments of \$41 631 until October 1, 2013 whose payment (capital and interest) is guaranteed by a movable hypothec without delivery on the amount of the subsidy foreseen by the repayment of this loan	416 308	
	<u>\$16 759 705</u>	<u>\$17 096 527</u>

The amounts of capital instalments to pay on long-term debts over the next fiscal years are as follows:

2005	\$1 585 478
2006	12 469 026
2007	832 349
2008	832 349
2009	832 349
2010 to 2014	208 154
	<u>\$16 759 705</u>

18. CAPITAL

As at March 31, 1995, the capital stock of the Société générale des industries culturelles, a government agency, became the Société's capital.

19. CONTRIBUTED SURPLUS

In 1998-1999, the Gouvernement du Québec paid the Société \$750 000 for awarding a loan for a specific project under the company financing program.

20. CASH FLOWS

a) The cash and cash equivalents shown in the cash flow statement include the following amounts recorded in the balance sheet:

	2004	2003
Cash on hand	\$1 273 190	\$3 164 240
Temporary investments	14 437 020	9 274 056
	<u>\$15 710 210</u>	<u>\$12 438 296</u>

Interest paid by the Société during the fiscal year totals \$1 222 893 (2003: \$1 973 772).

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

20. CASH FLOWS (cont'd)

- b) Investment and financing operations that involve no cash flow or movement of cash equivalents have been excluded from the cash flow statement. The consideration other than cash received on the sale of ordinary, non-voting and participating shares \$390 000 has been presented as short-term notes \$642 200.

21. FUTURE FRINGE BENEFITS
Pension plans

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP) and Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement amount to \$236 892 (2003: \$231 882). The Société's liability towards this Government plan is restricted to its contributions as an employer.

Provision for sick leave and vacation time

	2004		2003
	Sick leave	Vacation time	Total
Opening balance	\$122 109	\$662 227	\$784 336
Charges for the year	170 097	537 586	707 683
Benefits paid during the year	(167 080)	(535 515)	(702 595)
Closing balance	<u>\$125 126</u>	<u>\$664 298</u>	<u>\$789 424</u>

22. FINANCIAL INSTRUMENTS
Credit risk

The Société's exposure to credit risk corresponds to the book value of financial assets. The Société evaluates these assets on an ongoing basis and records a provision for losses when the accounts are deemed irrecoverable.

Fair value of financial instruments

The fair value of cash, short-term investments, assistance to be repaid, receivables, short-term notes, bank borrowings, payables, accrued interest and amounts to be paid under financial assistance programs is equivalent to the book value, given that these are short-term elements.

In the case of variable-rate loans, the estimated fair value is presumed to correspond to the book value. For doubtful loans, the fair value corresponds to the book value given that the provision is re-evaluated on an ongoing basis.

The fair value of the \$7.6 M investment in a limited partnership, long-term Gouvernement du Québec advances and common voting and non-voting shares cannot be estimated given the lack of market for this type of financial instrument.

The fair value of Gouvernement du Québec subsidies receivable was \$24.2 M.

The fair value of the long-term debts of \$16.7 M of the Financing Fund of the Gouvernement du Québec was \$18.2 M and was based on discounting cash flows at market rates for similar issues with the same remaining service life.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

23. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Société did not conclude any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

24. COMMITMENTS

- a) The unpaid balance on commitments for loans as at March 31, 2004, amounts to \$11.2 million (2003: \$5.6 million).
b) The minimum commitments under an operating lease for Société offices are as follows:

2005	\$609 362
2006	609 362
2007	609 362
2008	609 362
2009	609 362
2010 – 2011	<u>457 021</u>
	<u>\$3 503 831</u>

25. CONTINGENCIES

- a) The Société guarantees the repayment of loans or debts contracted by firms from financial institutions for business financing and for the interim funding of tax credits. The maximum amounts guaranteed are as follows:

	<u>2004</u>	<u>2003</u>
Business financing *	\$21 962 295	\$22 309 968
Interim funding of refundable tax credits for Québec movie and TV production, production of multimedia titles, production of sound recordings, books publishing and production of shows**	<u>23 842 367</u>	<u>22 333 628</u>
	<u>\$45 804 662</u>	<u>\$44 643 596</u>

* The accumulated allowance for losses on these loan guarantees is discussed in Note 7 of the financial statements.

** Contingent losses on guarantees granted under this program, estimated at \$340 843, will be repaid by the Gouvernement du Québec.

- b) Various judicial and extrajudicial proceedings instituted by or against the Société are presently under way. According to the Société, the outcome of these cases will have no significant impact on its financial position or on the results of its operations.

26. COMPARATIVE FIGURES

Certain figures for the previous fiscal year were reclassified to comply with the presentation adopted for fiscal 2004.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**MANAGEMENT'S REPORT**

The financial statements of the Société de développement des entreprises culturelles du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not part of management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Pierre Lafleur
President

Pierre Major
Secretary General

Québec, May 28, 2004

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Société de développement des entreprises culturelles as at March 31, 2004 and the statement of revenue and expenditure and surplus as well as the statement of cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 28, 2004

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL
(R.S.Q., c. S-11.03)

RESULTS AND CUMULATED SURPLUS
for the year ended August 31

	2003	2002
REVENUE		
Gouvernement du Québec operating subsidy	\$3 158 600	\$3 141 400
Other Gouvernement du Québec subsidies (Note 3)	17 412 042	16 883 945
Auditorium rentals	3 074 908	2 992 442
Ancillary operations	3 476 083	3 060 065
Rental of office and commercial space	1 567 604	1 553 039
Royalties and ticket revenue	1 743 864	1 625 515
Sponsorships and publicity	674 860	714 557
Theatrical services	261 522	184 025
Financial revenue	152 868	78 576
Other revenue	804 890	807 712
	<u>32 327 241</u>	<u>31 041 276</u>
EXPENDITURE		
Salaries and fringe benefits	6 373 942	5 656 952
Building maintenance and repair	2 976 358	3 146 463
Electricity and heating	2 096 956	1 912 917
Equipment purchases, maintenance and repair	496 365	760 086
Professional services	633 452	440 321
Communications	1 022 741	884 780
Show operating costs	598 910	539 016
General administration	241 092	249 081
Insurance and taxes	7 571 335	6 722 749
Financial expenses	5 175 814	5 706 807
Depreciation of fixed assets	4 654 973	4 540 617
Other expenses	202 007	137 204
Cost of customers services	4 118 708	4 407 609
	<u>36 162 653</u>	<u>35 104 602</u>
Costs recovered from customers	<u>(4 118 708)</u>	<u>(4 407 609)</u>
	<u>32 043 945</u>	<u>30 696 993</u>
SURPLUS FOR THE FISCAL YEAR BEFORE NET CONTRIBUTION TO THE ARTS ACCESSIBILITY PROGRAM	283 296	344 283
NET CONTRIBUTION TO THE ARTS ACCESSIBILITY PROGRAM (Note 4)	<u>(101 729)</u>	<u>(46 965)</u>
SURPLUS OF THE YEAR	181 567	297 318
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>1 090 085</u>	<u>792 767</u>
CUMULATED SURPLUS, END OF YEAR (Note 5)	<u>\$1 271 652</u>	<u>\$1 090 085</u>

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

BALANCE SHEET
as at August 31

	2003	2002
ASSETS		
Current assets		
Cash on hand	\$2 751 097	\$3 505 782
Short-term investment, at cost (interest rate of 2.68%)	1 995 460	2 693 790
Accounts receivable	1 523 182	1 323 686
Debt receivable (Note 6)	8 570	
Gouvernement du Québec subsidies receivable (Note 7)	21 313 605	11 724 143
Bar inventory	51 109	50 635
Deferred production costs	17 060	10 813
Prepaid expenses	46 710	40 452
	<u>27 706 793</u>	<u>19 349 301</u>
Funds reserved for construction and retrofitting	401 120	272 310
Debt receivable (Note 6)	97 331	
Fixed assets (Note 8)	66 367 986	69 751 321
Gouvernement du Québec subsidies receivable (Note 7)	58 215 817	73 576 788
Deferred discount and issue expenses on the long-term debt	<u>350 340</u>	<u>449 083</u>
	<u>\$153 139 387</u>	<u>\$163 398 803</u>
LIABILITIES		
Current liabilities		
Deposits - Rental and ticket sales	\$1 766 556	\$2 859 751
Accounts payable and accruals	4 422 977	4 534 403
Provision for wage equity and relativity		455 302
Accrued interest	1 194 466	1 226 130
Short-term borrowings (Note 9)	5 250 422	3 121 693
Instalments on the long-term debt (Note 10)	<u>20 054 538</u>	<u>10 506 334</u>
	32 688 959	22 703 613
Deferred Gouvernement du Québec subsidies (Note 11)	59 254 081	63 002 637
Long-term debt (Note 10)	<u>52 315 953</u>	<u>68 993 726</u>
	<u>144 258 993</u>	<u>154 699 976</u>
EQUITY		
Contributed surplus (Note 12)	7 608 742	7 608 742
Cumulated surplus (Note 5)	<u>1 271 652</u>	<u>1 090 085</u>
	<u>8 880 394</u>	<u>8 698 827</u>
	<u>\$153 139 387</u>	<u>\$163 398 803</u>
COMMITMENTS (Note 16)		
CONTINGENCIES (Note 17)		

On behalf of the Board of Directors,
Michel Tourangeau, Administrator
E. Noël Spinelli, Administrator

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL
CASH FLOWS
 for the year ended August 31

	<u>2003</u>	<u>2002</u>
OPERATING ACTIVITIES		
Surplus of the year	\$181 567	\$297 318
Adjustments for:		
Depreciation of fixed assets	4 654 973	4 540 617
Amortization of deferred		
Gouvernement du Québec subsidies	(5 082 777)	(4 754 485)
Amortization of premium, discounts and		
commissions on long-term debt	<u>116 162</u>	<u>90 827</u>
	(130 075).....	174 277.....
Change in non-cash elements of the Working		
Capital Fund:		
Accounts receivable	(199 496)	(716 865)
Gouvernement du Québec subsidies receivable	(41 258)	1 097 124
Bar inventory	(474)	(22 727)
Claim receivable	(105 901)	
Deferred production costs	(6 247)	(10 813)
Prepaid expenses	(6 258)	(10 851)
Rental deposits and ticket sales	(1 093 195)	339 727
Accounts payable and accruals	(111 426)	2 492 806
Provision for wage equity and relativity	(455 302)	143 808
Accrued interest	<u>(31 664)</u>	<u>(1 062 801)</u>
	(2 051 221).....	2 249 408.....
Cash flows provided by operating activities	<u>(2 181 296)</u>	<u>2 423 685</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(1 274 623)	(4 162 831)
Proceeds from disposal of fixed assets	<u>2 985</u>	<u>12 848</u>
Cash flows used for investment activities	<u>(1 271 638)</u>	<u>(4 149 983)</u>
FINANCING ACTIVITIES		
Change in funds reserved for construction and retrofitting	(128 810)	594 909
Decrease in long-term debt	(7 146 988)	(7 031 196)
Short-term borrowings	2 128 729	3 121 693
Proceeds from Gouvernement du Québec subsidies	<u>7 146 988</u>	<u>7 031 196</u>
Cash flows provided by financing activities	<u>1 999 919</u>	<u>3 716 602</u>
(DECREASE) INCREASE IN CASH AND CASH		
 EQUIVALENTS	(1 453 015)	1 990 304
CASH AND CASH EQUIVALENTS AT THE BEGINNING	<u>6 199 572</u>	<u>4 209 268</u>
CASH AND CASH EQUIVALENTS ET THE END (Note 13)	<u>\$4 746 557</u>	<u>\$6 199 572</u>

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALNOTES TO FINANCIAL STATEMENTS
August 31, 2003**1. CONSTITUTION AND PURPOSE**

A legal person within the meaning of the Civil Code, the Société de la Place des Arts de Montréal was established under the Act respecting the Société de la Place des Arts de Montréal (R.S.Q., c. S-11.03). Its purpose is to operate an enterprise that disseminates the performing arts and administers the Place des Arts de Montréal or any other establishment entrusted to it by the Government.

Specifically, these activities are designed to procure a residence for major artistic organizations, promote access to various types of performing arts and foster Québec's artistic and cultural sector.

Under section 32 of its incorporating legislation, the Société finances its activities through the sums it receives and the appropriations granted annually for this purpose by the National Assembly. The Société keeps any surplus unless the government decides otherwise.

The Société is a recognized registered non-profit organization within the meaning of the Income Tax Act and, as such, is eligible for the related income tax exemption.

2. ACCOUNTING POLICIES

The financial statements of the Société were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Subsidy recording

Subsidies are recorded as products for the fiscal year in which the related charges were incurred.

Subsidies receivable related to fixed assets and their maintenance are recorded in the fiscal year in which the Société carries out the work or obtains the financing entitling it to these subsidies.

Deferred production costs

All deferred performance production costs are accumulated in the balance sheet during the fiscal year in which they are incurred and are charged to results for the period the performance runs in de proportion to the performances given during the year.

Bar inventory

Bar inventory is valued at the lower of cost and net realizable value. Cost is calculated according to the first in, first out (FIFO) method.

Fixed assets

Fixed assets are valued at cost, which includes materials, direct labour, direct costs and financing costs during the work. Fixed assets are depreciated over their service life according to the straight-line method as follows:

Building	40 years
Building improvements and major repairs	10 years
Stage equipment and accessories	10 years
Office furniture and equipment	10 years
Other equipment	5 years
Computer hardware	3 years

Deferred premium, discount and issue expenses on the long-term debt

Premium, discount and issue expenses on the long-term debt are deferred and amortized according to the straight-line method over the remaining term of the borrowings.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL
NOTES TO FINANCIAL STATEMENTS (cont'd)
 August 31, 2003

2. ACCOUNTING POLICIES (cont'd)
Cash and cash equivalents

Cash and cash equivalents consist of bank balances including bank overdrafts and short-term investments maturing within three months.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. OTHER GOUVERNEMENT DU QUÉBEC SUBSIDIES

Gouvernement du Québec subsidies break down as follows:

	<u>2003</u>	<u>2002</u>
Interest on bonds and borrowings on notes	\$5 004 079	\$5 564 524
Compensation in lieu of taxes	7 325 186	6 564 936
Amortization of deferred		
Gouvernement du Québec subsidies	<u>5 082 777</u>	<u>4 754 485</u>
	<u>\$17 412 042</u>	<u>\$16 883 945</u>

4. NET CONTRIBUTION TO THE ARTS ACCESSIBILITY PROGRAM

The cumulated surplus is slated essentially for the implementation of a series of shows in partnership with guest programmers. The net to the arts accessibility program is as follows:

	<u>2003</u>	<u>2002</u>
Proceeds		
Ticket sales	\$36 987	\$8 578
Sponsorship	30 000	
Revenue from ancillary services	<u>10 481</u>	
	<u>77 468</u>	<u>8 578</u>
Charges		
Wages and fringe benefits	25 351	9 478
Artists' honoraria	44 303	
Artistic direction and programmer support	55 154	3 137
Research	27 723	24 083
Animation	2 903	
Operating costs	6 784	3 654
Administrative expenses	7 266	2 125
Equipment purchase and rental	<u>9 713</u>	<u>13 066</u>
	<u>179 197</u>	<u>55 543</u>
Net contribution	<u><u>\$(101 729)</u></u>	<u><u>\$(46 965)</u></u>

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALNOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2003**5. CUMULATED SURPLUS**

The Société uses its cumulated surplus by investing in public development projects and diversifying its programming with a view to increasing accessibility of the arts, in conjunction with its resident organizations and other partners.

6. DEBT RECEIVABLE

	2003	2002
Debt receivable, at the rate of 5.9% repayable in monthly payments of \$1 216, renewable in February 2004 and maturing in February 2013	\$105 901	
Cash receivable in the coming fiscal year	8 570	
	<u>\$97 331</u>	

The amount of cash receivable in the coming 5 fiscal years is as follows:

2004	\$8 570
2005	9 089
2006	9 640
2007	10 225
2008	10 844

7. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

Gouvernement du Québec subsidies receivable presented as short-term correspond to the interest charged on the long-term debt and to short-term borrowings and to reimbursement of capital on the long-term debt in the next fiscal year.

The long-term portion represents the Gouvernement du Québec's total commitments for fixed assets and their maintenance minus capital repayments on the long-term debt already made and to be made in the next fiscal year.

8. FIXED ASSETS

	2003		2002
	Cost	Accumulated depreciation	Net
Land	\$7 608 742		\$7 608 742
Building	100 996 648	\$53 390 621	47 606 027
Building improvements and major repairs	66 668 449	57 034 304	9 634 145
Stage equipment and accessories	2 272 730	1 497 577	775 153
Office furniture and equipment	272 072	52 773	219 299
Other equipment	928 800	694 133	234 667
Computer hardware	1 039 117	749 164	289 953
	<u>\$179 786 558</u>	<u>\$113 418 572</u>	<u>\$66 367 986</u>
			<u>\$69 751 321</u>

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL
NOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2003
9. SHORT-TERM BORROWINGS

The Gouvernement du Québec has authorized the Société to contract the following borrowings related to fixed assets maintenance:

	<u>2003</u>	<u>2002</u>
Term bill renewable at September 25, 2003, authorized by order-in-council for a maximum of \$2 553 200 bearing interest at a rate of 2.83%	\$1 545 956	\$1 007 359
Term bill renewable at September 25, 2003, authorized by order-in-council for a maximum of \$2 488 600 bearing interest at a rate of 2.83%	1 241 590	1 006 503
Term bill renewable at September 25, 2003, authorized by order-in-council for a maximum of \$2 833 000 bearing interest at a rate of 2.83%	2 061 060	1 107 831
Term bill renewable at September 25, 2003, authorized by order-in-council for a maximum of \$2 835 200 bearing interest at a rate of 2.83%	<u>401 816</u>	
	<u>\$5 250 422</u>	<u>\$3 121 693</u>

The maximum amount authorized by the Gouvernement du Québec for short-term borrowings related to assets maintenance is \$10 710 000.

The Société is also authorized to contract a maximum of \$2 000 000 in short-term borrowings for its operations under a credit line at variable or fixed rates without exceeding the prime rate for a term not to exceed one year.

10. LONG-TERM DEBT

	<u>2003</u>	<u>2002</u>
Bonds guaranteed by the Gouvernement du Québec:		
- 6.25% sinking fund bonds maturing June 1, 2006	\$2 310 000	\$2 994 000
- 5.75% sinking fund bonds maturing April 15, 2005	2 368 000	3 431 000
- 12.25% series bonds maturing February 19, 2005	2 000 000	2 425 000
- 11.25%, maturing February 16, 2008	<u>1 500 000</u>	<u>1 500 000</u>
	8 178 000	10 350 000
Borrowings on notes from the Financing Fund of the Gouvernement du Québec:		
- 5.825% (effective rate of 5.954%), repayable in annual principal instalments of \$2 541 837 up to December 1, 2009 and one instalment of \$17 792 858 on December 1, 2010, guaranteed by one moveable hypothec without delivery	35 585 716	38 127 553
- 7.5% (effective rate of 7.667%), repayable in one instalment of \$14 080 768 on December 1, 2003	14 080 768	14 960 816
- 4.515% (effective rate of 4.705%), repayable in variable annual principal instalments up of \$483 450 until October 10, 2007, guaranteed by one moveable hypothec without delivery	2 417 249	2 887 646
- 5.481% (effective rate of 5.648%), repayable in annual principal instalments of \$93 451 up to October 1, 2012, guaranteed by one moveable hypothec without delivery	<u>934 515</u>	<u>1 020 771</u>
Amounts carried forward	<u>\$61 196 248</u>	<u>\$67 346 786</u>

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALNOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2003**10. LONG-TERM DEBT** (cont'd)

	2003	2002
Amounts brought forward	\$61 196 248	\$67 346 786
- 6.77% (effective rate of 6.902%), repayable in annual principal instalments of \$202 667 up to February 16, 2005 and one instalment of \$2 026 667 on February 16, 2006, guaranteed by one moveable hypothec without delivery	2 432 000	2 634 666
- 6.96% (effective rate of 6.972%), repayable in annual principal instalments of \$270 100 up to February 16, 2005 and one instalment of \$1 620 600 on February 16, 2006	2 160 800	2 430 900
- 5.673% (effective rate of 5.795%), repayable in annual principal instalments of \$506 265 up to April 11, 2005 and one instalment of \$5 568 913 on April 11, 2006, guaranteed by one moveable hypothec without delivery	6 581 443	7 087 708
	<u>72 370 491</u>	<u>79 500 060</u>
Payments due in the next fiscal year	<u>20 054 538</u>	<u>10 506 334</u>
	<u>\$52 315 953</u>	<u>\$68 993 726</u>

Payments on the principal of the long-term debt over the next five fiscal years under call features and amortization clauses for the bonded debt are as follows:

2004	\$20 054 538
2005	8 084 770
2006	13 149 918
2007	3 118 738
2008	3 118 738

11. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2003	2002
Opening balance	\$63 002 637	\$64 369 118
Gouvernement du Québec commitments regarding fixed assets and their maintenance	1 316 802	3 121 111
Premium on long-term debt issue	17 419	266 893
Amortization of deferred subsidies	<u>(5 082 777)</u>	<u>(4 754 485)</u>
Closing balance	<u>\$59 254 081</u>	<u>\$63 002 637</u>

12. CONTRIBUTED SURPLUS

This item corresponds to property costs.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2003

13. CASH FLOWS

Cash and cash equivalents shown in the cash flow statement include the following amounts recorded in the balance sheet:

	2003	2002
Cash on hand	\$2 751 097	\$3 505 782
Short-term investment, at cost (interest rate of 2.68%)	1 995 460	2 693 790
	<u>\$4 746 557</u>	<u>\$6 199 572</u>

Interest paid to the Société during the year amounts to \$5 091 317 (2002: \$6 678 782).

14. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. The Société has commercial rental income of a \$718 376 with a related company. These transactions are not shown separately in the financial statements.

15. FUTURE FRINGE BENEFITS
Pension plans

Some of the staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (RRPE) or Upper Management Retirement Plan (RRAS). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

Other Société staff members, namely, stagehands and dressers, contribute to two defined-benefit plans.

The Société's contributions charged to the year-end statement amount to \$396 688 (2002: \$363 489). The Société's liability towards these Government plans is restricted to its contributions as an employer

Provision for sick leave and vacation time included in accounts payable and accrued liability

	2003			2002
	Sick leave	Vacation leave	Total	Total
Opening balance	\$169 758	\$200 452	\$370 210	\$337 089
Charge for the year	303 010	457 759	760 769	639 781
Benefits paid during the year	(250 644)	(381 376)	(632 020)	(606 660)
Closing balance	<u>\$222 124</u>	<u>\$276 835</u>	<u>\$498 959</u>	<u>\$370 210</u>

16. COMMITMENTS

The Société is committed to long-term contracts for goods and services, maturing on various dates up to May 31, 2017 and to construction work on fixed assets.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2003

16. COMMITMENTS (cont'd)

Minimum future payments are as follows:

2004	\$1 580 890
2005	211 320
2006	171 360
2007	161 441
2008 and thereafter	<u>273 721</u>
	<u>\$2 398 732</u>

17. CONTINGENCIES

In a ruling dated August 24, 2001, the labour commissioner granted 100 of the 102 grievances submitted by stage technicians and ordered the Société to pay compensation equalling the wages and other fringe benefits lost in their dismissals between November 11, 1999 and January 31, 2001. On September 7, 2001, the Société appealed this ruling before the Labour Court. No provision was included in the financial statements. Management estimates that no amounts are owing to grievants.

The Société is also party to various claims and legal proceedings that have cropped up in the normal course of business.

The Société is not able to predict the outcome of these disputes. To the extent that it can be determined, these financial statements include provisions to this effect.

18. FINANCIAL INSTRUMENTS*FAIR VALUE OF FINANCIAL INSTRUMENTS***Long-term debt**

At August 31, 2003, the fair value of the long-term debt of \$72 370 491 was \$77 027 723, given the discounting of cash flows at the market rate for securities of a similar nature as to their maturity date and interest rate.

The fair value of short-term borrowings at August 31, 2003 in the amount of \$5 250 422 corresponds to the book value of these securities, given their short renewal deadline.

The fair value of Gouvernement du Québec subsidies receivable in the amount of \$79 524 422 is \$84 186 653.

Other assets and liabilities

The fair value of the cash, short-term investment, accounts receivable, prepaid expenses, deposits – rentals and ticket sales and suppliers and accrued expenses is equal to their book value, given that they mature in the near future.

19. COMPARATIVE FIGURES

Certain 2002 figures were reclassified for consistency with the presentation adopted in 2003.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL**MANAGEMENT'S REPORT**

The financial statements of the Société de la Place des Arts de Montréal were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Marie Lavigne
Director General

André Huberdeau, MBA
Director Administration

Montréal, November 11, 2003

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société de la Place des Arts de Montréal as at August 31, 2003 and the statements of results and cumulated surplus and the statement of cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at August 31, 2003 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, CA
Acting Auditor General of Québec

Québec, November 11, 2003

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
(R.S.Q., c. S-11.011)

REVENUE AND EXPENDITURE
for the year ended December 31
(in thousands of dollars)

	2003		2002
	Current year	Prior years	Total
REVENUE			
Contributions			
Vehicle registration	530 235		530 235
Driver's licences	122 462		122 462
Fees collected on vehicle registration and driver's licence transactions	90 576		90 576
Net income from investments related to the actuarial liability and average cash flow (Note 5)	4 694	136 683	141 377
Gouvernement du Québec contribution for funding road checks	49 111		49 111
Other	668		668
	<u>797 746</u>	<u>136 683</u>	<u>934 429</u>
			<u>1 012 812</u>
EXPENDITURE			
Compensation paid (Note 6)	194 423	624 564	818 987
Administrative expenses (Note 7)	249 351	54 190	303 541
Programs for handicapped persons (Note 8)	9 005		9 005
Contribution to funding of agencies (Note 9)	49 542	6 913	56 455
Normal fluctuation in actuarial liability (Note 10)	807 993	(189 039)	618 954
	<u>1 310 314</u>	<u>496 628</u>	<u>1 806 942</u>
			<u>1 544 551</u>
DEFICIT REVENUE OVER EXPENDITURE BEFORE THE FOLLOWING ITEMS	(512 568)	(359 945)	(872 513)
Other net investment income (Note 5)	42 616		42 616
Fluctuation in deferred gains and losses on the assumption of the real rate of return (Note 17)	24 577	441 352	465 929
Adjustment to actuarial liability (Note 11)		15 410	15 410
	<u>(445 375)</u>	<u>96 817</u>	<u>(348 558)</u>
			<u>(160 485)</u>
(DEFICIT) EXCESS REVENUE OVER EXPENDITURE			

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

CONTINGENCY FUND
for the year ended December 31
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
OPENING BALANCE		128 111
Transfer to unappropriated surplus		<u>(128 111)</u>
CLOSING BALANCE		<u><u> </u></u>

DEFICIT
for the year ended December 31
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
OPENING BALANCE ALREADY ESTABLISHED	(32 374)	
Adjustment (Note 4) Correction of the provision for sick leave and vacation time	<u>(6 694)</u>	
ADJUSTED OPENING BALANCE	(39 068)	
Deficit revenue over expenditure	(348 558)	(160 485)
Transfer from contingency reserve		<u>128 111</u>
CLOSING BALANCE	<u><u>(387 626)</u></u>	<u><u>(32 374)</u></u>

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

BALANCE SHEET
as at December 31
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS		
Accounts receivable	14 117	9 383
Accrued investment income	8 579	12 499
Fund entrusted to the Caisse de dépôt et placement du Québec (Note 12)	7 048 830	7 291 195
Fixed assets (Note 13)	<u>149 643</u>	<u>140 458</u>
	<u>7 221 169</u>	<u>7 453 535</u>
LIABILITIES AND DEFICIT		
LIABILITIES		
Outstanding cheques in excess of bank balance	7 807	9 943
Line of credit with the Caisse de dépôt et placement du Québec (Note 14)	181 410	59 435
Accounts payable and accruals		
Gouvernement du Québec	209 861	120 878
Other	32 852	35 733
Allowance for sick leave and vacation time (Note 15)	55 805	46 163
Deferred contributions	323 123	313 205
Obligations to accident victims - Actuarial liability (Note 16)	<u>6 365 122</u>	<u>5 761 578</u>
	7 175 980	6 346 935
Deferred investment income	340 200	580 430
Deferred gains and losses on the assumption of the real rate of return (Note 17)	<u>92 615</u>	<u>558 544</u>
	<u>7 608 795</u>	<u>7 485 909</u>
DEFICIT		
Contingency fund		
Deficit	<u>(387 626)</u>	<u>(32 374)</u>
	<u>(387 626)</u>	<u>(32 374)</u>
	<u>7 221 169</u>	<u>7 453 535</u>
COMMITMENTS (Note 19)		
CREATION OF A TRUST FUND (Note 23)		

On behalf of the Board of Directors,
Jacques Brind'Amour
President and Chief Executive Officer

Marthe Lacroix, F.I.C.A., F.C.A.S.
Administrator

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

CASH FLOWS
as at December 31
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
OPERATING ACTIVITIES		
Contributions collected		
Vehicle registration	535 976	520 714
Driver's licence	128 031	121 821
Fees collected on vehicle registration and driver's licence transactions	90 605	87 985
Net investment income		
Investment income collected	239 824	268 552
Interest paid	(979)	(96)
Gouvernement du Québec contribution for funding road checks received	49 965	51 297
Other income collected	218	1 616
Compensation paid	(730 445)	(747 702)
Administrative expenses paid	(284 988)	(278 022)
Programs for handicapped persons paid	(9 108)	(6 310)
Contribution paid to funding of agencies	(56 454)	(55 368)
	<u>(37 355)</u>	<u>(35 513)</u>
Mandates conferred by the Gouvernement du Québec		
Registration and driver's licence fees		
Collected for the Gouvernement du Québec	741 904	719 438
Remitted to the Gouvernement du Québec	(746 809)	(711 436)
Collected for other governments	35 472	37 417
Remitted to other governments	(35 472)	(37 539)
Taxes		
Collected for the Gouvernement du Québec	818 456	776 096
Remitted to the Gouvernement du Québec	(814 731)	(774 622)
Motorists' contribution to mass transit		
Collected for the Gouvernement du Québec	65 413	62 386
Remitted to the Gouvernement du Québec	(64 582)	(62 551)
	<u>(37 704)</u>	<u>(26 324)</u>
Cash flows related to operating activities		
INVESTMENT ACTIVITIES		
Funds entrusted to the Caisse de dépôt et placement du Québec		
Gains (losses) on investments by the Caisse	(48 797)	34 136
Disbursements for the acquisition of fixed assets	(33 445)	(32 905)
Proceedings for the sale of fixed assets	107	269
	<u>(82 135)</u>	<u>1 500</u>
Cash flows related to investment activities		
DECREASE IN CASH AND CASH EQUIVALENTS	(119 839)	(24 824)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>(69 378)</u>	<u>(44 554)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 18)	<u><u>(189 217)</u></u>	<u><u>(69 378)</u></u>

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Société de l'assurance automobile du Québec is a legal person established in the public interest within the meaning of the Civil Code of Québec under the Act respecting the Société de l'assurance automobile du Québec (R.S.Q., c. S-11.011).

Its purpose is to:

- administer the compensation plan for victims of bodily injuries provided for by the Automobile Insurance Act;
- administer the compensation plan for property damage prescribed in Title IV of the Automobile Insurance Act;
- administer the Highway Safety Code, in particular with respect to the registration of road vehicles, permits and licences, vehicle safety standards and obligations in the event of an accident;
- promote highway safety as regards the conduct of highway users as well as the safety standards respecting the vehicles used;
- ensure the monitoring of and control over highway transportation of goods and passengers on highways and in carrier facilities, in particular with respect to the application of:
 - . the provisions of the Highway Safety Code;
 - . the legislative or regulatory provisions pertaining to highway transportation which are under the responsibility of the departments and agencies designated by the Government, to the extent and on the conditions determined by agreement entered into pursuant to Title VIII.2 of the Highway Safety Code;
- assume operational coordination in matters pertaining to the control of highway transportation between the departments and agencies concerned and to promote stricter road checks throughout Québec.
- establish a program for the adaptation of road vehicles so that persons with disabilities may drive or have access to such vehicles.

To this end, the Société may:

- collect the duties, fees, insurance contributions and the contributions of motorists to public transit with respect to vehicle registration;
- collect the duties, fees, and insurance contributions with respect to permit issues.

2. FUNDING POLICY

The objectives of the Société's funding policy, which is based on the full funding principle, of intergenerational equity and adequate funding of its financial obligations, establish the following principles:

- target full capitalization that guarantees beneficiaries payment of present and future compensation, including future management fees linked to disposal of the actuarial debt;
- with the Government's approval, set insurance contribution rates that will ensure sufficient funding to cover the projected financial requirements;
- seek to act equitably vis-à-vis future generations of insured members when setting insurance contributions and administrative fees;
- calculate the actuarial liability on the base of the best estimate; in terms of the assumption regarding the real rate of return, the best estimate concept falls within a long-term perspective that reflects a particular environment of the insurance plan administered by the Société;

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

2. FUNDING POLICY (cont'd)

- establish the deferred gains and losses resulting from discrepancies in the real rate of return observed and the assumption used to establish the actuarial liability in order to restrict the impacts of fluctuating economic conditions;
- establish an insurance contribution contingency fund not to exceed 6% of the actuarial liability to promote relative stability in rates that may be influenced by non-economic factors.
- establish any other reserve in order to deal with situations characterized by multiple risks or financial needs that might have significant impacts on its financial health;
- the balance of the unassigned surplus is available on the terms and conditions that the Société determines with the government's approval.

3. ACCOUNTING POLICIES

The Société's financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

a) Deposits with an individual fund of the Caisse de dépôt et placement du Québec

Participation deposits with an individual fund of the Caisse de dépôt et placement du Québec are recorded at a value based on the single moving average of market values over a 60-month period.

This value comprises the acquisition cost of the participation deposit units increased (decreased) by the cumulated capital gain (capital loss) of these units established using the method described below.

The change in this value constitutes the capital gain (capital loss) posted to results.

b) Fixed assets

Fixed assets are recorded at historical cost and depreciated as follows, taking into account their residual value:

	Method	Useful life
Buildings	Straight-line	40 years
Equipment	Straight-line	Maximum 5 years
Automotive equipment	Straight-line	Maximum 5 years
Photography stations	Straight-line	Maximum 5 years
Data processing equipment and software	Straight-line	Maximum 5 years
Computer systems development	Straight-line	Maximum 7 years
Highway control stations:		
Buildings	Straight-line	10 years
Site development	Straight-line	10 years
Equipment	Summary-of-the-years' digits	Maximum 10 years

c) Actuarial liability

The actuarial liability corresponds to:

- the capitalized value of income replacement and death benefits and other indemnities;
- the estimated current value of future administrative expenses required for the payment of indemnities.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

3. ACCOUNTING POLICIES (cont'd)

c) Actuarial liability (cont'd)

Economic assumptions are established based on a long-term real rate of return of 3.75%.

Amounts posted to the statement of revenue and expenditure item "Change in actuarial liability" are the result of changes in actuarial assumptions, calculation methods and legislative and regulatory amendments.

d) Contributions

Contributions for registration and driver's licences are recorded as revenue based on the period which runs from the first day of the month of issue or renewal of the registration and the licence until the last day of the month preceding their expiry.

e) Deferred investment income

Gains and losses on the sale of investments by the Caisse de dépôt et placement du Québec are recorded as deferred investment and then posted to results using the straight-line method over a 60-month period.

f) Deferred gains and losses on the assumption of the real rate of return gains

The deferred gains and losses on the assumption of the real rate of return comprise the accumulation of annual surpluses or deficits resulting from the discrepancies in the real rate of return observed and the assumption used to establish the actuarial liability. The surpluses or deficits reported are amortized on a straight-line basis over a 5-year period. The annual fluctuation in deferred gains and losses is presented separately in the statement of revenue and expenditure.

g) Contingency fund

A contingency fund (s. 152.1 of the Act) can be created to promote relative stability in rates that are influenced by non-economic factors. This fund is not to exceed 6% of the actuarial liability and will be reviewed regularly by the Société's Board of Directors.

h) Pension plans

Société employees contribute to Gouvernement du Québec interenterprise defined-benefit plans. The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans. Since the Société lacks sufficient information to use the accounting procedure the defined-benefits plans, it uses the accounting procedure for defined-condition plans.

i) Cash and cash equivalents

The Société's policy consists in presenting under cash and cash equivalents bank balances, including bank overdrafts whose balances often fluctuate between overdraft and available, and the line of credit used to cover monthly cash shortages.

4. CORRECTION OF THE PROVISION FOR SICK LEAVE AND VACATION TIME

The calculation used to evaluate the provision for sick leave and vacation time was modified to include the cost related to the employer's contribution. The Société did not take this cost into account in calculating the provision and, consequently, these expenditures were charged to operations for the fiscal year in which the employees used their sick leave or vacation time.

The Société made the correction retroactively. The effect of this adjustment on the financial statements for 2002 and the years previous was recorded at January 1, 2003 directly in the deficit statement for the fiscal year ended December 31, 2003. The financial statements for the fiscal year ended December 31, 2002 were not adjusted to reflect this adjustment.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

4. CORRECTION OF THE PROVISION FOR SICK LEAVE AND VACATION TIME (cont'd)

This adjustment increased the following items for the fiscal year ended December 31, 2003:

	<u>2003</u>
Balance sheet	
Allowance for sick leave and vacation time	6 694
Deficit	6 694

5. NET INVESTMENT INCOME

	<u>2003</u>	<u>2002</u>
Participation deposits with and individual fund of the Caisse de dépôt et placement du Québec		
Net fund income	186 601	274 141
Less:		
Capital gain (capital loss) on investments realized by the Caisse	<u>(56 611)</u>	<u>19 930</u>
	243 212	254 211
Plus:		
Amortization of deferred investment income	183 619	190 746
Capital loss disclosed on demand deposits	<u>(242 365)</u>	<u>(117 457)</u>
	184 466	327 500
Interest		
Demand deposits	561	1 671
Bank balances	233	155
Line of credit	<u>(1 267)</u>	<u>(116)</u>
	<u>183 993</u>	<u>329 210</u>

	2003			2002
	Current year	Prior years	Total	Total
Net income from investments related to actuarial liability and average cash flows	4 694	136 683	141 377	237 367
Other net investment income	42 616		42 616	91 843
	47 310	136 683	183 993	329 210

Net investment income of \$136 683 000 (2002: \$228 915 000) assigned to previous years is generated by investments related to the actuarial liability for those years. That attributed to the current year, \$4 694 000 (2002: \$8 452 000), is generated by the assets acquired with the average cash flows of operations for the current year.

Other net investment income assigned to the current year is generated mainly by investments related to deferred revenue.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

6. COMPENSATION PAID

	2003			2002
	Current year	Prior years	Total	Total
Income replacement benefits	51 279	290 224	341 503	304 068
Death benefits	34 155	57 867	92 022	92 777
Health care services ¹	58 235	30 419	88 654	88 654
Non-pecuniary damage	6 380	76 763	83 143	58 463
Lump sum indemnities for permanent after effects		23 329	23 329	32 838
Rehabilitation costs	10 328	51 082	61 410	59 812
Personal care	2 710	37 891	40 601	39 874
Medical and paramedical expenses	14 145	31 911	46 056	38 274
Travelling and accommodation expenses	3 290	10 760	14 050	13 323
Medical information	1 930	9 656	11 586	10 422
Cost of ambulance services and repatriation expenses	7 475	181	7 656	8 495
Other expenses	4 496	4 481	8 977	9 118
	<u>194 423</u>	<u>624 564</u>	<u>818 987</u>	<u>756 118</u>

¹ This item represents the Société's contribution to the Consolidated Revenue Fund of the Gouvernement du Québec in lieu of billing health care costs incurred as a result of automobile accidents and provided for in the Automobile Insurance Act (R.S.Q., c. A-25). The contribution was established under section 155.1 of the said Act.

7. ADMINISTRATIVE EXPENSES

	2003			2002
	Société	Road checks	Total	Total
Salaries and fringe benefits	145 075	29 625	174 700	160 824
Travelling expenses	2 395	1 320	3 715	3 597
Agents' remuneration	16 436		16 436	16 313
Administrative and professional services	19 536	1 717	21 253	23 809
Communications	5 934	2 107	8 041	15 078
Information and advertising	5 895	156	6 051	5 508
Furniture, fixtures and equipment	3 600	508	4 108	2 936
Maintenance	2 207	2 204	4 411	4 115
Rent, taxes and electricity	9 346	1 712	11 058	10 474
Data processing and office automation equipment	3 000	345	3 345	3 215
Rental and maintenance of data processing and office automation equipment	11 864	979	12 843	12 517
Printing, supplies and other expenses	13 954	1 371	15 325	14 817
Overhead	(4 465)	4 465		
	<u>234 777</u>	<u>46 509</u>	<u>281 286</u>	<u>273 203</u>
Depreciation of fixed assets	<u>19 653</u>	<u>2 602</u>	<u>22 255</u>	<u>17 478</u>
	<u>254 430</u>	<u>49 111</u>	<u>303 541</u>	<u>290 681</u>

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

8. PROGRAMS FOR HANDICAPPED PERSONS

	2003	2002
Vehicle adaptation		
Subsidies	8 171	6 305
Administrative costs	286	212
	8 457	6 517
Parking stickers		
Administrative costs	442	392
System amortization	106	106
	548	498
	9 005	7 015

The vehicle adaptation program is based on the legal provisions stipulated in section 2g of the Act respecting the Société de l'assurance automobile du Québec (R.S.Q., c. S-11.011). The parking sticker program is provided for in section 11 of the Highway Safety Code (R.S.Q., c. C-24.2).

9. CONTRIBUTION TO FUNDING OF AGENCIES

	2003			2002
	Current year	Prior years	Total	Total
Agencies responsible for ambulance services	49 542		49 542	48 597
Tribunal administratif du Québec		6 913	6 913	6 771
	49 542	6 913	56 455	55 368

The contribution to funding of agencies responsible for ambulance services is provided for in sections 155.5 and 155.6 of the Automobile Insurance Act (R.S.Q., c. A-25). For the Tribunal administratif du Québec, funding by user organizations is provided for in section 97 of the Act respecting administrative justice (R.S.Q., c. J-3). An annual Order-in-Council sets each organization's share.

10. NORMAL FLUCTUATION IN ACTUARIAL LIABILITY

This item, which represents \$618 954 000 (2002: \$435 369 000), is composed of a \$807 993 000 increase (2002: \$714 104 000), representing the amount needed to pay all compensation, present and future, resulting from accidents that occurred in the current year, and a \$189 039 000 decrease (2002: \$278 735 000) comprising a \$386 763 000 decrease (2002: \$357 233 000) to cover the payment of compensation during the fiscal year, compensation to accident victims from previous years, anticipated investment income and an increase of \$197 724 000 (2002: \$78 498 000) representing discrepancies observed in the past.

11. ADJUSTMENT TO ACTUARIAL LIABILITY

The \$15 410 000 decrease in the deficit of revenue over expenditure reflects the impact of the change to actuarial assumptions and methods on directives and administrative practices. It is composed primarily of changes made by the Société in calculating net income (+\$23 781 000), various modifications made in calculating income replacement claim reserves (-\$26 556 000), calculating the medical and paramedical expenses reserve (-\$21 825 000) and claim reserve for non-monetary damages (+\$10 510 000).

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

12. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

Participation deposits in an individual fund of the Caisse de dépôt et placement du Québec are expressed in units. Units are redeemable on advance notice according to the terms of payment set by the Caisse de dépôt at the market value of the net equity of the individual fund at the beginning of each month. At the end of each month, the Caisse allocates to the Société the net investment income.

	2003	2002
Participation deposits		
Number of units	6 683 183	6 683 183
Acquisition cost of units	6 229 209	6 229 209
Cumulated capital gain of participation deposit units	819 621	1 061 986
	7 048 830	7 291 195

At December 31, 2003, the market value of the participation deposit units was \$6 566 105 000 (2002: \$5 903 534 000).

13. FIXED ASSETS

	2003			2002
	Cost	Accumulated depreciation	Unamortized cost	Unamortized cost
Land	1 862		1 862	1 862
Buildings ¹	63 997	19 433	44 564	45 322
Head Office furnishings	11 212	11 212		
Equipment	4 487	2 938	1 549	1 334
Automotive equipment	11 061	4 526	6 535	5 951
Photography stations	12 180	11 952	228	1 234
Data processing equipment and software	51 044	35 168	15 876	12 639
Computer systems development ²	104 781	30 995	73 786	68 026
Highway carrier monitoring weigh station	8 017	2 774	5 243	4 090
	268 641	118 998	149 643	140 458

¹ Head Office, for which the amount of \$60 518 000 is included in this item, is held under a divided co-ownership contract with the City of Québec. The Société has sole ownership of most of the Head Office complex and holds 84.6% of the undivided rights for the common areas.

² Computer systems development totalling \$15 700 000 (2002: \$17 960 000) was being carried out at December 31, 2003.

14. LINE OF CREDIT WITH THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

The Société obtained a \$200-million line of credit with the Caisse to offset monthly cash shortages. It bears interest based on the rate yielded by the demand deposit account set daily plus 0.05%. The interest rate was 2.80% at December 31, 2003 (2002: 2.82%). This credit line expires on December 31, 2005.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

15. ALLOWANCE FOR SICK LEAVE AND VACATION TIME

	2003			2002
	Sick leave	Vacation time	Total	Total
Previously established balance	32 537	13 626	46 163	44 217
Adjustment (Note 4)				
Correction of the provision for sick leave and vacation time	4 718	1 976	6 694	
Adjusted balance	37 255	15 602	52 857	44 217
Plus				
Charge for the year	10 043	15 353	25 396	18 542
Less				
Benefits paid during the year	8 023	14 425	22 448	16 596
Closing balance	<u>39 275</u>	<u>16 530</u>	<u>55 805</u>	<u>46 163</u>

16. OBLIGATIONS TO ACCIDENT VICTIMS - ACTUARIAL LIABILITY

	2003			2002
	Current year	Prior years	Total	Total
Compensation				
Capitalized value of future indemnities including pension adjustment	740 027	5 295 879	6 035 906	5 465 363
Future administrative expenses				
Estimated current value of expenses necessary for the payment of future indemnities	67 966	261 250	329 216	296 215
	<u>807 993</u>	<u>5 557 129</u>	<u>6 365 122</u>	<u>5 761 578</u>

17. DEFERRED GAINS AND LOSSES ON THE ASSUMPTION OF THE REAL RATE OF RETURN

	2003			2002
	Current year	Prior years	Total	Total
Opening balance	22 773	535 771	558 544	834 958
(Deficit) ascertained	(15 475)	(243 192)	(258 667)	(42 595)
Amortization	(9 102)	(198 160)	(207 262)	(233 819)
Net change during the year	<u>(24 577)</u>	<u>(441 352)</u>	<u>(465 929)</u>	<u>(276 414)</u>
Closing balance	<u>(1 804)</u>	<u>94 419</u>	<u>92 615</u>	<u>558 544</u>

The target goals, since this item was created in 1996, are the same as originally (see notes 2 and 3f). Our view of these bases has not changed, particularly since the professional standards on which they are based have remained the same.

Therefore, we do not doubt its validity since it is necessary to ensure continued plan funding.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2003

(in thousands of dollars)

18. CASH FLOWS

Cash and cash equivalents shown in the cash flow statement include the following items in the balance sheet:

	2003	2002
Outstanding cheques in excess of bank balance	7 807	9 943
Line of credit with the Caisse de dépôt et placement du Québec	<u>181 410</u>	<u>59 435</u>
Deficiency in cash and cash equivalents	<u><u>189 217</u></u>	<u><u>69 378</u></u>

During the year, the Société disbursed \$33 445 000 (2002: \$32 905 000) for the acquisition of fixed assets and suffered \$1 360 000 loss (2002: \$69 000) on the sale of fixed assets. At December 31, 2003, accounts payable and costs incurred in relation to fixed assets totalled \$6 029 000 (2002: \$6 461 000).

19. COMMITMENTS**Rental contracts**

As at December 31, 2003, the minimum contractual commitments for office space are as follows:

2004	6 757
2005	6 109
2006	4 924
2007	2 391
2008 and thereafter	<u>6 307</u>
	<u><u>26 488</u></u>

Contracts for computer and other services

The Société is committed under various contracts for computer and other services for an amount estimated at \$11 941 940 on December 31, 2003 (2002: \$8 987 470). These contracts span a maximum period of three years.

20. PENSION PLANS

The employees of the Société participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) and Pension Plan of Management Personnel (PPMP). Interenterprise plans are defined-benefit plans and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement amount to \$5 293 000 (2002: \$5 050 000). The Société's liability towards these Government plans is restricted to its contributions as an employer.

21. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société transacts with government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

22. FINANCIAL INSTRUMENTS

The fair value of accounts receivable, accrued investment income, cheques issued in addition to bank balances, lines of credit and accounts payable and accrued expenses is equal to their book value given that they mature in the near future.

23. CREATION OF A TRUST FUND

In December 2003, the Gouvernement du Québec announced its intention to create trust res from the insurance contributions collected by the Société. Once the Act has been assented to, the Société de l'assurance automobile du Québec will create this trust res by setting up a trust fund. The Société's current property and debts will be distributed according to the legal and financial parameters decreed in the legislation. Since the draft legislation has not yet been present to the National Assembly, the financial impact could not be estimated.

24. COMPARATIVE FIGURES

Certain 2002 figures were reclassified for consistency with the presentation adopted in 2003.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**ACTUARIAL CERTIFICATE**

related to the commitments of the Société de l'assurance automobile du Québec
as at December 31, 2003

The valuation as at December 31, 2003, of the amount necessary for the payment of all present and future compensation resulting from accidents that occurred before January 1, 2004, was made in accordance with section 153 of the Automobile Insurance Act (R.S.Q., c. A-25).

Indemnities covered by the valuation are those provided for under Title II, Chapter II of Title IV and Chapter II of Title V of the Automobile Insurance Act, for accidents that occurred from March 1, 1978 to December 31, 2003, and those provided for under Chapter III of Title IV of the Act, for accidents that occurred between September 30, 1961 and March 1, 1978. The amount needed to pay indemnities was calculated taking administrative expenses related to the discharge of compensation obligations into account.

In our opinion, the actuarial liability of \$6 365 122 million as at December 31, 2003 represents sufficient allowance for the payment of these indemnities.

To reflect the provisions of the Automobile Insurance Act governing readjustment of compensation, the assumed real rate of return, defined from a long-term perspective, is set at 3.75%. The Société adopted a mechanism to allow the amortization of financial impacts from the annual discrepancies in the assumed real rate of return and the actual rate.

The actuarial liability as at December 31, 2003 is up \$603 544 million over last year. This increase includes \$618 954 million representing the normal fluctuation in actuarial liability, and an adjustment of -\$15 410 million. The adjustment reflects the impact of the changes to the actuarial assumptions and methods on directives and administrative practice. It is composed primarily of changes made by the Société in calculating net income (+\$23 781 million), various other modifications made in calculating income replacement claim reserves (-\$26 556 million), calculating the medical and paramedical expenses reserve (-\$21 825 million) and the claim reserve for non-monetary damages (+\$10 510 million).

“Deferred gains and losses on the assumption of the real rate of return” represented an amount of \$92 615 million at December 31, 2003. This item was necessary for achieving the objectives of the funding policy principles adopted by the Société.

The actuarial liability valuation report contains more detailed information on the elements discussed in this certificate.

In our opinion, the amount of the actuarial liability was established in keeping with recognized actuarial practices using sufficient, reliable data and appropriate assumptions and methods.

Linda Bellware, F.S.A., F.I.C.A.
Actuary
Société de l'assurance automobile du Québec

Clément Gosselin, F.S.A., F.I.C.A.
Actuary
Société de l'assurance automobile du Québec

March 12, 2004

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

MANAGEMENT'S REPORT

The financial statements of the Société de l'assurance automobile du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carries out audits periodically to ensure that the internal controls applied regularly by the Société are appropriate and consistent.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties, meets with management and the Auditor General, reviews the financial statements and recommends their approval to the board of directors.

Once a year, in accordance with sound actuarial principles, the Société's actuary carries out a valuation of the actuarial liability and deferred gains and losses on the assumption of the real rate of return indicated in the Société's financial statements, and reports the results to the audit committee.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. He was assisted in this task by a consulting actuary. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Jacques Brind'Amour
President and Chief Executive Officer

Claire Monette
Vice-President, Administration and
Finance

Québec, March 12, 2004

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

REPORT OF THE AUDITING COMMITTEE ON THE ITEM "DEFERRED GAINS AND LOSSES ON THE ASSUMPTION OF THE REAL RATE OF RETURN"

One of the mandates of the Société's auditing committee consists of ensuring that the requirements underlying healthy management of the automobile insurance plan are respected. Consequently, the committee supported the adoption, on March 14, 1997, of the principles of a funding policy aimed at full capitalization. The objective was to guarantee victims of present and future compensation payments. While establishing a transparent framework for managing the insurance plan's financial aspects, this policy led to the introduction into the Société's financial statements of the item "Deferred gains and losses on the assumption of the real rate of return".

This financial environment is that through the Société's managers evolved over the past seven years to manage the insurance plan and present the financial statements that the auditor general of Québec had audited. The above-mentioned item is one of the bases of the funding policy. Its purpose is to better highlight the Société's insurance operations and, consequently, offer a more accurate overview of the insurance plan's financial position.

In March 2003, the auditor general had informed the auditing committee of his discomfort about this item's becoming a receivable in the Société's financial statements. However, it was only on December 9, 2003 that he advised the auditing committee that, based on an opinion being completed by an outside firm, he questioned the very existence of this item. The authors of the final report, of which the Société obtained a copy on February 24, 2004, held that the item should be removed from the financial statement. According to them the reason is that this item does not comply with generally recognized accounting principles. The auditor general uses this report to express an opinion, with reservations, concerning the financial statements.

Faced with the auditor general's new position regarding an item he had supported without reservation since it had been introduced into the financial statements in 1996, the auditing committee proposed setting up a working group to study the entire matter again. This proposal was made although no new information related to relevant professional standards was provided to call into question the presentation of the financial statements or the funding policy and no change had occurred in the Société's status as public insurer in the past seven years. Since he felt that he had studied the matter sufficiently, the auditor general did not deem the proposal useful.

The Société was open and coherent vis-à-vis the problem raised by the auditor general. Given the Société's financing structure, had management adopted the auditor general's new position, repercussions of several million dollars would have appeared in its next financial statements and, clearly, its clientele would have borne the brunt. Further, in so doing, the managers themselves would not have respected the management decisions the Société had made in recent years.

The goal of Société management is to ensure that the insurance plan continues to be managed rigorously in a healthy, transparent financial environment and in the interest of all Quebecers. Endorsing these principles, the auditing committee advised the board of directors, as it has for the past seven years, to adopt the 2003 financial statements and respect the Société's funding policy.

Marthe Lacroix, f.i.c.a., f.c.s.a.
Chair, Auditing Committee

Jacques Brind'Amour
Vice-Chair, Auditing Committee
and CEO

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Société de l'assurance automobile du Québec as at December 31, 2003 and the statements of revenue and expenditure, the deficit and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

As indicated in section f of Note 3, the annual surpluses or deficits resulting from the difference in the real rate of return observed and the assumed real rate of return used to establish the actuarial liability are carried over to the item "Deferred gains and losses on the assumption of the real rate of return" and amortized over a five-year period. Further, professional standards require that accounting estimates be reassessed in light of new events, experience acquired or additional information disposed of. Based on the new events and additional information available to us, it seems that this item cannot constitute either an asset or a liability or deferred proceeds. In this respect, the Société's financial statements are not in keeping with the accounting principles that are generally recognized in Canada. Had these surpluses or deficits not been deferred, the prospective application of this accounting estimate review would have resulted in the item "Deferred gains and losses on the assumption of the real rate of return", whose balance was \$92.6 million at December 31, 2003, not being presented in the financial statements. Logically, then, the deficit shown in the statement at this date would have been reduced by as much. Further, the deficit of revenues over expenditures for the fiscal year ended December 31, 2003 would also have been reduced by \$92.6 million.

In my opinion, with the exception of the inadequate posting of surpluses and deficits mentioned in the preceding paragraph, these financial statements present fairly, in all material respects, the Société's financial position as at December 31, 2003 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Comments on the auditing committee's report

Stricter professional standards require auditors and those preparing financial statements to review their position regarding certain items of the financial statements. Consequently, I have performed an in-depth analysis in order to rule on the compliance status of the item "Deferred gains and losses on the assumption of the real rate of return" where accounting principles that are generally recognized are concerned. I have also used the services of an accounting consulting firm specializing in actuarial sciences to corroborate our position. This analysis proved all the more necessary since Société actuaries made a change to this item in 2002, eliminating from their actuarial certificate the mention: "This provision is necessary for attaining the target objectives of the funding policy adopted by the Société". Moreover, in 2004, according to the Société's forecasts, this item would become a receivable.

Since June 2003, my representatives have discussed the problems linked to this item with Société staff on several occasions. The issue of its non-compliance with generally recognized accounting principles, in particular, was debated as of October 2003. I feel that I have acted prudently in this matter. Before formulating a restriction, all impacts and possible solutions were carefully studied.

With the Société's actuaries, I evaluated the possibility of incorporating this item into the actuarial liability. However, they confirmed the absence of a basis allowing the item to be included with actuarial liability. I would also like to point out that I did not find financial statements containing a provision similar to the one the Société records regarding the assumption of the real rate of return apart from a public Québec agency that used it for 19 years but stopped doing so in 2003. Note that my search was extended to government agencies whose activities related to automobile insurance and industrial accidents resembled those of the Société.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

AUDITOR'S REPORT (cont'd)

Based on my in-depth analysis, the presentation of this item in the financial statements constitutes a deviation from accounting practices that are generally recognized in Canada, even if Société actuaries re-introduced the mention regarding this item into their actuarial certificate at December 31, 2003. Consequently, it is my responsibility to formulate a restriction in my report. Setting up a working group to re-examine the entire matter, as proposed by the Société, would not release me from this obligation. However, there is nothing to prevent the Société from including such a mechanism in its funding policy in order to establish insurance rates without making it into an item of the financial statements.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 12, 2004

SOCIÉTÉ DES ALCOOLS DU QUÉBEC
(R.S.Q., c. S-13)

CONSOLIDATED INCOME AND CONSOLIDATED RETAINED EARNINGS
for the year ended March 27, 2004
(in thousands of dollars)

	2004	2003
NET SALES (Note 5)	2 653 024	2 413 460
Taxes, fees, discounts and others (Note 5)	582 948	543 452
NET SALES (Note 5)	2 070 076	1 870 008
OPERATING EXPENSES		
Cost of goods sold (Note 5)	1 053 159	935 687
Selling, marketing, distribution and administrative expenses	396 008	358 162
	1 449 167	1 293 849
INCOME BEFORE FINANCING CHARGES, AMORTIZATION AND OTHER REVENUE (CHARGE)	620 909	576 159
FINANCING CHARGES AND AMORTIZATION		
Financing charges (Note 6)	8 301	6 019
Depreciation of fixed assets	40 251	27 033
Depreciation of the building leased under a capital lease	407	407
Amortization of other assets	245	904
	49 204	34 363
INCOME BEFORE OTHER REVENUE (CHARGE)	571 705	541 796
OTHER REVENUE (CHARGE)		
Loss resulting from the co-enterprise's participation in a joint venture (Note 16)		(750)
Share in results of an associated corporation	(1 188)	(937)
Depreciation of deferred gain on ceding assets to the co-enterprise	270	270
	(918)	(1 417)
NET INCOME	570 787	540 379
RETAINED EARNINGS, BEGINNING OF YEAR	4 073	3 694
DIVIDEND	(570 000)	(540 000)
RETAINED EARNINGS, END OF YEAR	4 860	4 073

The notes are an integral part of the consolidated financial statement.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

CONSOLIDATED BALANCE SHEET

as at March 27, 2004

(in thousands of dollars)

	2004	2003
ASSETS		
Current assets		
Cash on hand	8 460	4 092
Accounts receivable (Note 7)	99 772	57 674
Inventories (Note 8)	290 941	257 162
Prepaid expenses	13 493	14 415
	<u>412 666</u>	<u>333 343</u>
Debentures, 8.66%, maturing July 1, 2009	2 500	5 500
Participation in an associated corporation	1 698	2 886
Fixed assets (Note 9)	308 382	291 718
Building lease under a capital lease (Note 10)	5 291	5 698
Other assets (Note 11)	12 062	12 433
	<u>742 599</u>	<u>651 578</u>
LIABILITIES		
Current liabilities		
Bank overdraft and borrowings (Note 12)	367 427	222 500
Suppliers and other accounts payable (Note 13)	210 817	227 563
Dividend	78 000	114 000
	<u>656 244</u>	<u>564 063</u>
Debentures, 8.66%, maturing July 1, 2009 (Note 14)	2 500	5 500
Commitment under a capital lease (Note 15)	8 883	9 678
Deferred gain on disposition of joint venture (Note 16)	4 027	4 297
Allowance for cumulated sick leave (Note 17)	36 085	33 967
	<u>707 739</u>	<u>617 505</u>
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized, issued and paid up:		
300 000 shares at a par value of \$100	30 000	30 000
Retained earnings	4 860	4 073
	<u>34 860</u>	<u>34 073</u>
	<u>742 599</u>	<u>651 578</u>

CONTINGENCIES AND COMMITMENTS (Note 18)

The notes are an integral part of the consolidated financial statement.

On behalf of the Board of Directors,
 Raymond Boucher, Chairman the Board of Directors
 Chantal Bélanger, Chairman of the Audit Committee

SOCIÉTÉ DES ALCOOLS DU QUÉBEC
CONSOLIDATED CASH FLOWS
 for the year ended March 27, 2004
 (in thousands of dollars)

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Net income	570 787	540 379
Non-cash items:		
Depreciation	40 903	28 344
Loss on disposal of fixed assets	345	62
Loss related to a co-enterprise interest		750
Share in results of an associated corporation	1 188	937
Depreciation of the deferred gain on ceding assets to the co-enterprise	(270)	(270)
Charge for sick leave credits	7 252	5 302
	<u>620 205</u>	<u>575 504</u>
Net change in non-liquid asset working capital items (Note 19)	(91 784)	10 381
Cumulated use of sick leave credits	(4 633)	(4 521)
Cumulated sick leave credits transferred to employees' registered retirement saving plans	<u>(501)</u>	<u>(832)</u>
Cash flows related to operating activities	<u>523 287</u>	<u>580 532</u>
INVESTMENT ACTIVITIES		
Debentures receivable	2 500	
Acquisition of fixed assets	(57 409)	(110 699)
Disposal of fixed assets	149	369
Other assets	<u>126</u>	<u>(890)</u>
Cash flows related to investment activities	<u>(54 634)</u>	<u>(111 220)</u>
FINANCING ACTIVITIES		
Deviation in bank loans	90 000	26 500
Debentures payable	(2 500)	
Repayment of commitment under a capital lease	(712)	(638)
Dividend	<u>(606 000)</u>	<u>(509 000)</u>
Cash flows related to financing activities	<u>(519 212)</u>	<u>(483 138)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(50 559)	(13 826)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4 092</u>	<u>17 918</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 19)	<u>(46 467)</u>	<u>4 092</u>

The notes are an integral part of the consolidated financial statement.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 27, 2004

(in thousands of dollars)

1. CONSTITUTION

The Société des alcools du Québec (the “Société”) is established under the Act respecting the Société des alcools du Québec (R.S.Q., c. S-13).

2. FISCAL YEAR

The Société des alcools du Québec's fiscal year ends on the last Saturday in March. Consequently, the fiscal years ended March 27, 2004 and March 29, 2003, include 52 weeks of operation respectively.

3. CHANGE IN ACCOUNTING POLICY

The Société has, for the future, adopted the Canadian Institute of Chartered Accounts' new recommendations for consolidated goodwill. According to the new recommendations, consolidated goodwill shown in the financial statements is no longer amortized but undergoes an annual depreciation test or more frequent if events or situations show possible depreciation. At the time the new recommendations were adopted, the Société carried out the first step in the consolidated goodwill depreciation test and determined that there had been no depreciation. Consequently, it was not necessary to proceed with the second step of the depreciation test.

Net earnings excluding amortization are presented for comparison purposes.

	2004	2003
Net earnings	570 787	540 379
Amortization of consolidated goodwill		1 942
Net earnings excluding amortization of consolidation goodwill	<u>570 787</u>	<u>542 321</u>

4. SIGNIFICANT ACCOUNTING POLICIES

The Société's consolidated financial statements were prepared in accordance with the accounting principles that are generally accepted in Canada. The principal accounting policies used to prepare the consolidated financial statements are disclosed below.

Consolidation perimeter

The consolidated financial statements include the Société des alcools du Québec's accounts and share of the assets, liabilities, proceeds and costs of Maison des Futailles, SEC, a joint venture in which the Société holds 50%. This share is recorded using the proportionate consolidation method. Participation in Société d'investissement, M-S, SEC, on which the Société exercises notable influence, is recorded on an equity basis.

Use of estimates

Preparing financial statements in keeping with generally recognized accounting principles requires management to use estimates and assumptions that affect the amounts of the assets and liabilities recorded, the presentation of eventual assets and liabilities at the date of the financial statements, and the amounts recorded for products and charges during the fiscal year. Real results may differ from these estimates.

Revenue recording

Sales are recorded when products are delivered.

Currency translation

Monetary items under assets and liabilities denominated in foreign currency are converted at the exchange rate in effect the date of the balance sheet while other items under assets and liabilities are converted at the rate in effect the date of the operation. Proceeds and charges denominated in foreign currency are converted at the average rate for the fiscal year. Exchange gains and losses are included in the fiscal year's results.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 27, 2004

(in thousands of dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Currency translation (cont'd)**

The Société manages its exchange risks on disbursements made in currency assets partly through the use of forward exchange contracts. The resulting gains and losses are recorded when they occur and are posted to the cost of the products sold.

Exchange losses of \$1.5 million and \$2 million are included in the results for 2004 and 2003 respectively.

Cash and cash equivalents

Cash and cash equivalents include cash and the bank overdraft.

Inventories

Inventory is valued at the lower of cost and net realizable value. Cost is calculated according to the first in, first out (FIFO) method.

Fixed assets

Fixed assets are recorded at cost and amortized according to their probable service life. Depreciation is calculated using the straight-line method, with the exception of depreciation on automotive equipment acquired before March 28, 1999, which is calculated using the diminishing balance method. The following annual rates are used:

Buildings	2.5% and 10%
Furniture and equipment	Rate varying between 2.8% and 50%
Automotive equipment	Rate varying between 10% and 30%
Leasehold improvements	According to the term of the leases between 5 to 15 years
Paving and parking	8%

Building leased under a capital lease

The building leased under a capital lease is recorded at cost, i.e. at the present value of the minimum payments required under the lease. Depreciation is calculated using the straight-line method at the annual rate of 2.5%.

Other assets

Other assets, recorded at cost, include the Société's share in trademarks, in the consolidated goodwill and in the co-enterprise's pre-development expenses. The consolidated goodwill is not amortized but subject to an annual depreciation test or more frequent tests if events or changes in the situation show that it underwent depreciation. The depreciation test consists of comparing the consolidated goodwill's fair value with its book value. When the book value exceeds the consolidated goodwill's fair value, a loss in value shall be posted to results in an amount that equals the surplus.

Pre-development expenses are amortized using the straight-line method over a seven-year period.

Fringe benefit plans*Cumulated sick leave credits*

The Société administers a defined-benefit plan that guarantees most employees of payment for sick leave credits. The cost of future benefits in terms of payment of sick leave credits earned by Société employees participating in the plan is established using actuarial calculations, according to the method of projecting costs on a prorated basis using years of service, and is posted to results as the services are rendered by these employees. The actuarial calculations reflect the most probable assumptions made by management regarding salary progression, retirement age and rate of use of sick leave credits. The Société reviews the book value of trademarks and goodwill annually to determine whether there has been a permanent drop in value by measuring the estimated fair value of these other assets in keeping with uncapitalized forecast future self-generated funds.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 27, 2004

(in thousands of dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)
Fringe benefit plans (cont'd)
Pension plans

Société employees participate in government and public employee retirement plans. These plans, administered by the Commission administrative des régimes de retraite et d'assurances du Québec, are defined-benefit plans and include guarantees on retirement and death. The accounting procedure for defined-contribution plans is applied to these plans.

5. NET SALES AND COST OF GOODS SOLD

	Outlets and specialized services	Wholesale grocers	Sub-total	Brewers and beer distributors ¹	Total	
					2004	2003
Gross sales	2 014 243	358 609	2 372 852	280 172	2 653 024	2 413 460
Less:						
- Québec sales tax	135 209	22 106	157 315	22 238	179 553	160 975
- Duties from permit holders	25 809		25 809		25 809	25 484
- Specific tax	74 037	26 821	100 858		100 858	96 693
- Specific duties	19 565		19 565		19 565	18 766
- Federal goods and services tax	118 031	19 283	137 314	19 392	156 706	140 341
- Discounts and returns	51 510		51 510		51 510	54 066
- Remuneration of agencies	4 172		4 172		4 172	3 672
- Remuneration of wholesale grocers		39 560	39 560		39 560	38 286
- Levies for the Fonds environmental	2 398	631	3 029		3 029	3 088
- Levies for the Fonds Éduc'alcool Inc.	1 831	355	2 186		2 186	2 081
	432 562	108 756	541 318	41 630	582 948	543 452
Net sales	1 581 681	249 853	1 831 534	238 542	2 070 076	1 870 008
Cost of goods sold	692 779	121 838	814 617	238 542	1 053 159	935 687

1 Holders of a brewer's or beer distributor's permit may sell and deliver, within Québec, beer made in other provinces or outside Canada by themselves or affiliated companies. These products must be purchased exclusively from the Société des alcools du Québec.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 27, 2004

(in thousands of dollars)

6. FINANCING CHARGE

	2004	2003
Interest on bank borrowings	4 034	4 378
Interest on short-term borrowings from a common-control corporation	4 573	1 743
Interest on debentures payable	450	495
Interest on the obligation resulting from a capital lease arrangement	1 108	1 182
	<u>10 165</u>	<u>7 798</u>
Less: Investment interest, term deposits and other	(1 414)	(1 284)
Interest debentures receivable	(450)	(495)
	<u>(1 864)</u>	<u>(1 779)</u>
	<u>8 301</u>	<u>6 019</u>

7. ACCOUNTS RECEIVABLE

	2004	2003
Wholesale grocers	32 703	18 373
Licensed establishments, institutions and other commercial accounts	66 569	39 301
Short-term portion of debentures receivable	500	
	<u>99 772</u>	<u>57 674</u>

8. INVENTORIES

	2004	2003
Bottled beverages	282 100	246 986
Bulk beverages and production equipment	6 872	8 306
Miscellaneous supplies	1 969	1 870
	<u>290 941</u>	<u>257 162</u>

9. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net value
Land	11 796		11 796
Buildings	104 924	19 148	85 776
Furniture and equipment	287 660	112 273	175 387
Automotive equipment	13 643	6 497	7 146
Leasehold improvements	44 627	17 215	27 412
Paving and parking	3 177	2 312	865
	<u>465 827</u>	<u>157 445</u>	<u>308 382</u>
			<u>291 718</u>

SOCIÉTÉ DES ALCOOLS DU QUÉBEC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 27, 2004

(in thousands of dollars)

10. BUILDING LEASED UNDER A CAPITAL LEASE

	2004		2003
	Cost	Accumulated depreciation	Net value
Building	16 280	10 989	5 291
			5 698

11. OTHER ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net value
Consolidated goodwill	13 534	2 474	11 060
Pre-development expenses	1 675	1 158	517
Other	485		485
	15 694	3 632	12 062
			12 433

12. BANK OVERDRAFT AND BANK BORROWINGS

	2004	2003
Bank overdraft	54 927	
Term borrowings	312 500	222 500
	367 427	222 500

The Société is authorized by the Gouvernement du Québec and by its board of directors to contract short-term bank borrowings of less than one year provided that its total borrowings do not exceed \$400 million. Bank borrowings as at March 27, 2004 comprise five term loans including two borrowings totalling \$312.5 million, three borrowings totalling \$201.5 million from a mutually-controlled corporation (six at March 29, 2003, including two borrowings totalling \$5.5 million involving the co-enterprise and the remainder from a mutually-controlled corporation). These borrowings bear interest at 2.30% (2.87% to 3.08% in 2003) and mature within 6 days or less (6 days or less in 2003).

13. SUPPLIERS AND ACCOUNTS PAYABLE

	2004	2003
Suppliers	132 417	150 242
Government duties and taxes	41 320	47 302
Salaries and fringe benefits	35 785	29 307
Short-term portion of debentures payable and of the obligation resulting from a capital lease contract	1 295	712
	210 817	227 563

14. DEBENTURES

This amount represents the Société des alcools du Québec's share in the \$12 million (2003: \$22 million) joint-venture unguaranteed debentures. They are repayable in four instalments of \$2.0 million as of July 1, 2004 and one final instalment of \$4 million on July 1, 2009. The Société's share in these instalments is \$0.5 million and \$1 million respectively.

During the year, the co-enterprise repaid \$10 million in advance.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 27, 2004

(in thousands of dollars)

14. DEBENTURES (cont'd)

Should it default, the Société has the right to convert any portion of the principle and accrued interest into a number of shares in the joint venture equal to the amount of the debenture converted divided by the book value of one share at the time of the conversion.

In October 2002, an agreement to ease interest payments on debentures was approved with the co-enterprise. This agreement decreased the debentures' interest rate from 10% to 8.66% and came into effect on October 1, 2002.

15. COMMITMENT UNDER A CAPITAL LEASE

	2004	2003
Commitment related to leasing of a building, repayable in monthly instalments of \$152 000 until April 11, 2012, including interest calculated at the semi-annual capitalized rate of 11%	9 678	10 390
Less: Portion due within one year	(795)	(712)
	<u>8 883</u>	<u>9 678</u>

Instalments due in subsequent years:

	Principal	Interest	Total
2005	795	1 025	1 820
2006	887	933	1 820
2007	989	831	1 820
2008	1 104	716	1 820
2009	1 231	589	1 820
2010 – 2012	4 672	843	5 515
	<u>9 678</u>	<u>4 937</u>	<u>14 615</u>

16. PARTICIPATION IN A CO-ENTERPRISE

On May 31, 1999, the Société des alcools du Québec, the Fonds de solidarité des travailleurs du Québec, Les Vins Andrès de Québec Ltée and 9072-3479 Québec Inc. merged their respective commercial bottling and marketing activities for certain wines and spirits and created the Maison des Futailles, SEC, a joint venture in which the Société acquired a 35% participation. The deferred gain resulting from the operation, whose balance was \$4.0 million at March 27, 2004 (\$4.3 million at March 29, 2003), is amortized over 20 years. On April 1, 2001, the Société and the Fonds de solidarité des travailleurs du Québec acquired the shares held by Les Vins Andrès du Québec Ltée and 9072-3479 Québec inc. thereby bringing the Société's shares in the co-enterprise to 50%.

In fiscal 2003, Maison des Futailles, S.E.C., presented a loss of approximately \$1.5 million in its financial statements for the liquidation of a co-enterprise. The Société recorded its share in this loss (approximately \$0.75 million) to its consolidated results.

The following amounts represent the Société's share in the co-enterprise, including products, charges and intercorporate accounts that were eliminated in the consolidation.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 27, 2004

(in thousands of dollars)

16. PARTICIPATION IN A CO-ENTERPRISE (cont'd)

	<u>2004</u>	<u>2003</u>
Income		
Net sales	39 482	45 749
Cost of products sold	<u>26 652</u>	<u>32 401</u>
	<u>12 830</u>	<u>13 348</u>
Operating expenses	8 416	8 532
Financing charges	895	1 294
Amortization	<u>1 035</u>	<u>2 038</u>
	<u>10 346</u>	<u>11 864</u>
	2 484	1 484
Loss related to a share in a co-enterprise	<u></u>	<u>(750)</u>
Net surplus	<u>2 484</u>	<u>734</u>
Balance sheet		
Current assets	18 130	18 959
Long-term assets	<u>20 976</u>	<u>20 707</u>
	<u>39 106</u>	<u>39 666</u>
Current liabilities	8 288	5 396
Long-term liabilities	5 104	11 000
Shareholder's equity	<u>25 714</u>	<u>23 270</u>
	<u>39 106</u>	<u>39 666</u>
Cash flows		
Cash flows related to operating activities	7 717	6 221
Cash flows related to financing activities	(5 037)	
Cash flows related to investment activities	(1 257)	(878)

17. FRINGE BENEFITS

The Société's charges under fringe benefit plans are as follows:

	<u>2004</u>	<u>2003</u>
Sick leave credits		
Defined-benefits plan	<u>7 252</u>	<u>5 302</u>
Pension plans		
Defined-contribution plans		
Current services	<u>6 285</u>	<u>5 837</u>

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 27, 2004

(in thousands of dollars)

17. FRINGE BENEFITS (cont'd)

The provision for cumulated sick leave credits is established as follows:

	2004	2003
Opening balance	33 967	34 018
Charge for fiscal year	7 252	5 302
Use of sick leave credits	(4 633)	(4 521)
Transfer to employees' registered retirement savings plans	(501)	(832)
Closing balance	<u>36 085</u>	<u>33 967</u>
Obligation regarding benefits comprising accumulated sick leave credits (deficit capitalization situation)	<u>25 721</u>	<u>40 523</u>

The significant assumptions used by the Société to evaluate its obligation with regard to future benefits are as follows:

Capitalization rate	6.5% in 2003 6.0% in 2004
Annual salary growth rate	3.0% in 2003 and for previous years
Rate of use of sick leave credits	65% in 2003 and for previous years

18. CONTINGENCIES AND COMMITMENTS**Contingencies**

In the normal course of its operations, the Société des alcools du Québec also faces various claims and proceedings, primarily for damages, totalling nearly \$15.1 million. Société management is contesting these proceedings and therefore objects to handling the resulting claims. According to its legal counsel, the arguments in its defence for each case are sound.

No allowance has been recorded in the Société's books for these contingencies.

Commitments

The Société des alcools du Québec is committed to operating leases for outlets and certain warehouses, which call for payments of \$303.4 million. Lease payments for the coming fiscal years are as follows:

2005	35 249
2006	34 633
2007	33 121
2008	31 569
2009	29 978
2010 – 2016	138 858

Environment

The Société's activities are governed by environmental legislation, regulations and guidelines adopted by Government authorities. Management considers that environmental hazards are managed appropriately and that no current or probable liability can be envisaged.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 27, 2004

(in thousands of dollars)

19. ADDITIONAL INFORMATION – CASH FLOW STATEMENT

The cash flows related to operations includes the following:

	2004	2003
Interest paid	<u>10 339</u>	<u>7 759</u>

Net deviation of non-cash elements of the Working Capital Fund breaks down as follows:

	2004	2003
Accounts receivable	(41 598)	(6 553)
Inventories	(33 779)	195
Prepaid expenses	922	(2 168)
Suppliers and accounts payable	<u>(17 329)</u>	<u>18 907</u>
	<u>(91 784)</u>	<u>10 381</u>

Cash and cash equivalents at year-end comprise the following:

	2004	2003
Cash on hand	8 460	4 092
Bank overdraft	<u>(54 927)</u>	<u></u>
	<u>(46 467)</u>	<u>4 092</u>

20. FINANCIAL INSTRUMENTS**Fair value of financial instruments**

	2004		2003	
	Fair value	Book value	Fair value	Book value
Debentures receivable, 8.66% maturing on July 1, 2009	3 037	3 000	5 426	5 500
Debentures payable, 8.66% maturing on July 1, 2009	3 037	3 000	5 426	5 500
Commitment under a capital lease	11 143	9 678	11 627	10 390

The book value of certain financial instruments maturing in the short term is assumed to correspond to their fair value. These financial instruments include cash, accounts receivable, the bank overdraft and borrowings, suppliers and other accounts payable, with the exception of government taxes and royalties and the dividend.

The fair value of debentures receivable and payable was determined by discounting future cash flows at the interest rates from which the Société could currently benefit for debentures with similar conditions and maturity dates.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 27, 2004

(in thousands of dollars)

20. FINANCIAL INSTRUMENTS (cont'd)**Fair value of financial instruments (cont'd)**

The fair value of the obligation resulting from a capital lease contract represents the present value of future monthly instalments at the annual interest rate for Gouvernement du Québec obligations, composed semi-annually and maturing in 2012, i.e. 7.33% in 2004 (2003: 8.38%).

Interest rate risk

Debentures receivable bear interest at a fixed rate, thereby exposing the Société to the risk that the market rate might be higher than the one for this asset.

The obligation resulting from a capital lease contract and debentures payable bear interest at a fixed rate, thereby exposing the Société to the risk that the market rate might be lower than the one for this liability.

Derivative financial instruments

During the fiscal year, in order to reduce the possible negative effects of a decline in the Canadian dollar on exchange markets, the Société entered into forward swap agreements denominated in Euros. Short-term swap agreements under 12 months denominated in Euros were in circulation at the end of the fiscal year ending March 27, 2004 and their fair value corresponded approximately to their respective amounts. No short-term swap agreement matured in fiscal year 2003.

	<u>2004</u>	<u>2003</u>
<u>Swap agreements in circulation at fiscal year-end</u>		
Weighted medium-term rate	1. 6455	
Swap amounts (in thousands of Euros)	5 000 €	

21. COMPARATIVE FIGURES

Certain comparative figures were reclassified for consistency with the presentation adopted during the year.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**AUDITORS' REPORT**

The Honourable Yves Séguin
Minister of Finance
Shareholder of the Société des alcools du Québec

We have audited the consolidated balance sheet of the Société des alcools du Québec as at March 27, 2004 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Société management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Société des alcools du Québec as at March 27, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), we report that, in our opinion, these principles were applied on a basis consistent with that of the preceding year.

Raymond Chabot Grant Thornton
Chartered Accountants
General Partnership

Montréal, May 7, 2004

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC
(R.S.Q., c. S-13.01)

INCOME
for the years ended March 31
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
REVENUE		
Fishing and vacation resorts	26 631	24 273
Hunting	14 062	13 262
Food services, boutiques and accommodation stores	11 730	11 147
Other outdoor activities	11 564	11 587
Concessions and miscellaneous	3 137	2 961
Management fees (Note 3)	<u>18 622</u>	<u>19 107</u>
	<u>85 746</u>	<u>82 337</u>
EXPENDITURE		
Salaries and fringe benefits	43 857	40 817
Maintenance	13 563	12 611
Overhead and administrative expenses	11 681	11 555
Resale products	8 685	8 454
Selling cost and marketing expenses	5 341	4 851
Property taxes	<u>2 085</u>	<u>1 193</u>
	<u>85 212</u>	<u>79 481</u>
OPERATING RESULTS BEFORE AMORTIZATION AND SUBSIDY	534	2 856
Amortization	(4 928)	(3 698)
Subsidies (Note 3)	<u>3 763</u>	<u>2 066</u>
OPERATING RESULTS	(631)	1 224
FINANCIAL CHARGES (Note 4)	(809)	(355)
OTHER ITEMS (Note 5)	<u>555</u>	<u>240</u>
INCOME ON CONTINUING OPERATIONS	(885)	1 109
Discontinued operations (Note 6)	<u>1 118</u>	<u>1 095</u>
NET INCOME	<u><u>233</u></u>	<u><u>2 204</u></u>

ACCUMULATED DEFICIT
for the years ended March 31
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
OPENING BALANCE	(31 121)	(33 325)
Net income	<u>233</u>	<u>2 204</u>
CLOSING BALANCE	<u><u>(30 888)</u></u>	<u><u>(31 121)</u></u>

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

BALANCE SHEETS
as at March 31
(in thousands of dollars)

	2004	2003
ASSETS		
Current assets		
Accounts receivable	4 603	3 257
Subsidies receivable	1 891	3 392
Inventories	2 472	2 182
Expenses deferred to the coming year	2 209	1 735
	<u>11 175</u>	<u>10 566</u>
Long-term subsidies receivable	15 020	11 660
Interest and advance in the affiliated company	537	790
Fixed assets (Note 7)	154 348	135 261
Assets related to abandoned activities (Note 6)	13 892	13 545
	<u>194 972</u>	<u>171 822</u>
LIABILITIES		
Current liabilities		
Bank loan (Note 8)	1 004	879
Accounts payable	17 637	19 418
Customer deposits	9 322	8 137
Long-term debt maturing during the coming year (Note 9)	400	400
	<u>28 363</u>	<u>28 834</u>
Long-term debt (Note 9)	45 000	22 200
Deferred subsidies	80 192	79 557
Liabilities related to discontinued operations (Note 6)	718	765
	<u>154 273</u>	<u>131 356</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 10)	71 587	71 587
Accumulated deficit	(30 888)	(31 121)
	<u>40 699</u>	<u>40 466</u>
	<u>194 972</u>	<u>171 822</u>

COMMITMENTS (Notes 11)

On behalf of the Board of Directors,
Michel Noël de Tilly
Yvan Bilodeau

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

CASH FLOWS
for the years ended March 31
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Income from ongoing activities	(885)	1 109
Amortization	4 928	3 698
Other items (Note 5)	(555)	(240)
Short-term variation in items	<u>(145)</u>	<u>4 529</u>
	<u>3 343</u>	<u>9 096</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(30 709)	(40 740)
Proceeds from sale of assets	784	564
Advance to an affiliated company	<u>252</u>	<u>48</u>
	<u>(29 673)</u>	<u>(40 128)</u>
FINANCING ACTIVITIES		
Subsidies for fixed asserts cashed in	3 452	5 833
Borrowings	23 200	5 800
Repayment of long-term debt	(400)	(400)
Change in bank loan	125	(1 164)
Capital stock issue	<u></u>	<u>15 500</u>
	<u>26 377</u>	<u>25 569</u>
DISCONTINUED OPERATIONS	<u>(47)</u>	<u>(31)</u>
CHANGE IN CASH ON HAND		(5 494)
CASH ON HAND, BEGINNING OF YEAR	<u></u>	<u>5 494</u>
CASH ON HAND, END OF YEAR	<u></u>	<u></u>

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2004

(in thousands of dollars)

1. INCORPORATION AND PURPOSE

The Société was incorporated under the Act respecting the Société des établissements de plein air du Québec (R.S.Q., c. S-13.01), assented to on December 21, 1984. Its purpose is to administer, operate and develop, alone or jointly with others, the recreational or tourist installations, immovable or territories that are transferred to it under this Act; and to devise, erect, administer, operate and develop, alone or jointly with others, any other recreational or tourist installation, immovable or territory.

2. ACCOUNTING POLICIES

a) Use of estimates

The preparation of financial statements in keeping with the accounting principles that are generally accepted in Canada requires management to use estimates and assumptions that affect the amount of assets and liabilities recorded and the presentation of potential assets and liabilities at the date of the financial statements, and amounts recorded and charges for the fiscal year. Real results may differ from estimates.

b) Interest in affiliated company

The Société accounts for its interest in the affiliated company on an equity basis.

c) Fixed assets and depreciation

Fixed assets are recorded at cost and depreciated on a straight-line basis at the following rates:

Buildings and infrastructures	4%
Ski lifts	5%
Automotive equipment, furniture, equipment, leasehold improvements and wildlife developments	14% and 20%

Areas dedicated to recreation or tourism are shown at the lower of cost or market value.

f) Deferred subsidies

Fixed asset subsidies are recorded as deferred subsidies and transferred to operations as the fixed assets to which they relate are depreciated.

e) Income tax

Pursuant to the Act respecting the Société des établissements de plein air du Québec, all Société shares are held by the Minister of Finance of Québec. The Société is therefore not subject to income tax.

f) Pension plans

The staff members of the Société are covered by pension plans offered to Québec government and public agency employees. The Société's contribution to these plans totalled \$1 167 175 (2003: \$1 090 965), was established by the Commission administrative des régimes de retraite et d'assurances du Québec and covers the cost of current service.

3. MANAGEMENT FEES AND SUBSIDIES

Management fees

Management fees come from the Gouvernement du Québec and are paid by the Société de la faune et des parcs du Québec to cover costs related to conservation, education and national park network maintenance.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

3. MANAGEMENT FEES AND SUBSIDIES
Subsidies

	<u>2004</u>	<u>2003</u>
Subsidies recorded in the statement of results		
Gouvernement du Québec		
Fonds Jeunesse Québec	2 292	912
Ministère des Ressources naturelles		
de la faune et des parcs	200	575
Société de la faune et des parcs du Québec		
- Chic-Chocs development project	815	262
Société de la faune et des parcs du Québec		
- Parcs nationaux de Plaisance et d'Anticosti	225	
Société de la faune et des parcs du Québec		
- Subsidies for major projects	<u>231</u>	<u>317</u>
	<u>3 763</u>	<u>2 066</u>
Subsidies for fixed assets	<u>5 491</u>	<u>18 462</u>

4. FINANCIAL CHARGES

The financial charges of \$809 000 (2003: \$355 000) include interest on the long-term debt of \$802 000 (2003: \$352 000) and interest on the bank borrowing of \$7 000 (2003: \$3 000).

5. OTHER ITEMS

	<u>2004</u>	<u>2003</u>
Gain on sale of assets	556	522
Share in results of affiliated company	(1)	27
Provision for reduction of value of property used for recreational or tourism purposes		<u>(309)</u>
	<u>555</u>	<u>240</u>

6. DISCONTINUED OPERATIONS

On May 12, 1994, the government announced the privatization of Parc du Mont-Sainte-Anne and, in the following fiscal year, transferred these assets. In the financial statements for the year ended on May 31, 1994, the Société recorded a loss following this decision to cover the transaction fees and loss on transfer of assets and to reflect the period for cashing receivables, potentially until 2029.

Assets related to discontinued operations comprise receivables resulting from the transaction and liabilities include accounts payable and accrued costs.

The item "abandoned activities" on the balance sheet represents the transfer of the actualization discount.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

7. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net value
Land	2 433		2 432
Buildings and infrastructures	169 575	28 307	124 150
Ski lifts	1 126	581	604
Automotive equipment	8 934	4 122	1 946
Furniture, equipment, leasehold improvement	17 277	12 112	5 842
Recreational and tourism areas	125		287
	<u>199 470</u>	<u>45 122</u>	<u>135 261</u>

8. BANK LOAN

The bank loan of a total authorized amount of \$1 500 000 bears interest at a rate of 4% and is renewable in October 2004.

9. LONG-TERM DEBT

	2004	2003
Long-term borrowings for an authorized amount of \$66 000 000, repayable in keeping with a maximum amortization of 17 years on the original capital, plus interest at variable rates from 2.34% to 2.54%, renewable between April 2004 and March 2005, maturing in 2019	44 000	20 800
Borrowing from the Government of Canada under the Canada-Québec Subsidiary Agreement on Tourism Development, interest-free, repayable in semi-annual instalments of \$200 000, maturing in 2008	<u>1 400</u>	<u>1 800</u>
	45 400	22 600
Less: Portion due within one year	<u>400</u>	<u>400</u>
	<u>45 000</u>	<u>22 200</u>

Payments of principal on the long-term debt for the next four fiscal years break down as follows:

2005	400
2006	400
2007	400
2008	200

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

10. CAPITAL STOCK

	<u>2004</u>	<u>2003</u>
Authorized:		
Pursuant to its incorporating act, the Société is authorized to issue to the Minister of Finance 750 000 common voting shares with a par value of \$100		
Issued:		
268 617 shares issued as payment for the transfer of assets	26 862	26 862
447 250 shares paid in cash	<u>44 725</u>	<u>44 725</u>
	<u>71 587</u>	<u>71 587</u>

11. COMMITMENTS

The Société is bound by commitments for a balance of \$8 228 488, excluding escalator clauses on leases. The minimum lease payments for the next five fiscal years are as follows:

2005	3 419
2006	2 200
2007	632
2008	479
2009	406

Furthermore, at March 31, 2003, the Société committed to incurring fixed asset costs of \$4 580 000 in the next fiscal year.

12. FINANCIAL INSTRUMENTS

Given the fact that they mature in the near future or the short term, the book value of accounts receivable, inventories, deferred expenses, customer deposits and bank borrowings shown in the financial statement are close to their fair value.

The book value of subsidies receivable is close to their fair value.

The value of the long-term debt, including that related to abandoned activities, corresponds to the fair value, given that interest rates fluctuate according to market rates. The book value of assets related to abandoned activities, accounts payable and accrued liabilities is deemed comparable to their fair value.

13. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société des établissements de plein air du Québec (SÉPAQ) were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains an accounting system and a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties and has approved the financial statements. It is assisted by the audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The accounting firm of Mallette, general partnership, limited-liability chartered accountants, has audited the Société's financial statements in accordance with auditing standards that are generally accepted in Canada. Its report states the nature and scope of its audit and its opinion. The auditor may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Yvan Bilodeau
President and Chief Executive Officer

Réal Couture, CA
Director,
Administration and Finance

Québec, April 28, 2004

AUDITORS' REPORT

To the Minister of Finance

We have audited the balance sheet of the Société des établissements de plein air du Québec as at March 31, 2004 and the statements of income, accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of Société management. Our responsibility consists in expressing an opinion on these financial statements based on our audits.

Our audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In our opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada.

Mallette
SENCRL
Chartered Accountants

Québec, April 28, 2004

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC
(R.S.Q., c. S-14)

INCOME AND DEFICIT
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
EXPENDITURE		
Operating expenses (Note 3)	\$41 386 392	\$39 788 685
Administrative expenses (Note 4)	4 093 092	4 285 475
Depreciation of fixed assets	8 755 531	8 699 153
Financial expenses	<u>4 344 267</u>	<u>4 203 454</u>
	<u>58 579 282</u>	<u>56 976 767</u>
 REVENUE		
Vehicle transport	7 141 007	7 216 688
Passenger transport	6 059 022	6 345 706
Other (Note 5)	<u>949 371</u>	<u>468 752</u>
	<u>14 149 400</u>	<u>14 031 146</u>
 LOSS BEFORE GOVERNMENT CONTRIBUTIONS	 44 429 882	 42 945 621
GOVERNMENT CONTRIBUTIONS (Note 6)	<u>44 939 885</u>	<u>42 120 232</u>
NET INCOME (NET LOSS)	510 003	(825 389)
DEFICIT, BEGINNING OF YEAR	<u>10 826 397</u>	<u>10 001 008</u>
DEFICIT, END OF YEAR	<u>\$10 316 394</u>	<u>\$10 826 397</u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

BALANCE SHEET
as at March 31, 2004

	2004	2003 (Note 20)
ASSETS		
Current assets		
Cash on hand	\$4 285 598	\$2 241 042
Accounts receivable (Note 7)	1 429 787	1 483 561
Prepaid expenses	213 321	360 019
Contribution to be recovered from the Government (Note 8)	979 288	933 640
	<u>6 907 994</u>	<u>5 018 262</u>
Investment of compensation for federal wharves (Note 11)	37 594 254	38 155 516
Contribution to be recovered from the Government (Note 8)	24 643 146	23 177 298
Fixed assets (Note 9)	<u>90 481 849</u>	<u>93 252 346</u>
	<u>\$159 627 243</u>	<u>\$159 603 422</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$7 079 705	\$7 895 760
Instalments on long-term debt (Note 10)	<u>3 943 919</u>	<u>3 934 228</u>
	<u>11 023 624</u>	<u>11 829 988</u>
Rent collected in advance	<u>150 000</u>	<u>156 000</u>
Long-term debt (Note 10)	<u>85 188 772</u>	<u>82 311 306</u>
Deferred government contribution		
Related to the financial compensation from the transfer of federal wharves (Note 11)	37 594 254	38 155 516
Related to fixed assets (Note 12)	<u>34 313 193</u>	<u>36 413 215</u>
	<u>71 907 447</u>	<u>74 568 731</u>
	<u>168 269 843</u>	<u>168 866 025</u>
SHAREHOLDER'S EQUITY (DEFICIT)		
Capital stock	1 500 000	1 500 000
Contributed surplus (Note 14)	173 794	63 794
Deficit	<u>(10 316 394)</u>	<u>(10 826 397)</u>
	<u>(8 642 600)</u>	<u>(9 262 603)</u>
	<u>\$159 627 243</u>	<u>\$159 603 422</u>
COMMITMENTS (Note 15)		
On behalf of the Board of Directors, Jean-Yves Gagnon Yvan Desgagnés		

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC**CASH FLOWS**

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Net income (net loss)	\$510 003	\$(825 389)
Adjustments for:		
Depreciation of fixed assets	8 755 531	8 699 153
Decrease (increase) in contribution to be recovered from the Government	(1 511 496)	319 539
Transfer of deferred Government contributions	(5 101 547)	(4 102 956)
Gain (loss) on disposal of fixed assets	(366 443)	9 689
Decrease in rent collected in advance	<u>(6 000)</u>	<u>(6 000)</u>
	2 280 048	4 094 036
Change in certain elements of assets and short-term liabilities apart from cash and cash equivalents:		
Accounts receivable	53 774	164 631
Prepaid expenses	146 698	(246 325)
Accounts payable and accruals	<u>727 368</u>	<u>733 772</u>
Cash flows provided by operating activities	<u>3 207 888</u>	<u>4 746 114</u>
INVESTMENT ACTIVITIES		
Acquisition of long-term investment	(2 337 188)	(2 300 822)
Proceeds from disposal of investment	3 104 600	1 871 005
Acquisition of fixed assets	(7 546 576)	(8 651 103)
Proceeds from disposal of fixed assets	<u>494 562</u>	<u>771</u>
Cash flows used for investment activities	<u>(6 284 602)</u>	<u>(9 080 149)</u>
FINANCING ACTIVITIES		
Long-term borrowing	6 846 844	7 143 438
Government contribution and related financial proceeds from transfer of federal wharves	2 234 113	2 343 821
Government contribution for fixed assets		40 084
Repayment of long-term debt	<u>(3 959 687)</u>	<u>(5 479 486)</u>
Cash flows provided by financing activities	<u>5 121 270</u>	<u>4 047 857</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2 044 556	(286 178)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2 241 042</u>	<u>2 527 220</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 16)	<u><u>\$4 285 598</u></u>	<u><u>\$2 241 042</u></u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

The Société des traversiers du Québec is a joint-stock company established under a special act (R.S.Q., chapter S-14) for the purpose of providing ferryboat transportation services across rivers and lakes situated in Québec. Its shares are part of the public domain of Québec and are reserved for the Minister of Finance.

Under section 5 of its incorporating legislation, the Société is an agent of the State and, consequently, is not subject to Québec and Canadian income tax.

2. ACCOUNTING POLICIES

The financial statements of the Société were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Fixed assets

Fixed assets acquired by donation are valued at historical cost, appraised value or their municipal assessment. Other fixed assets are recorded at acquisition cost, which includes interest accrued during construction and repair work.

Fixed assets are depreciated according to the following methods and rates:

	Method	Rate
Buildings	Diminishing balance	4% and 10%
Wharves	Diminishing balance	5%
Vessels	Diminishing balance	15%
Fixtures and equipment	Diminishing balance	20%
Automotive equipment	Diminishing balance	30%
Leasehold improvements	Straight-line	Term of lease

Contribution to be recovered from the Government

The contribution to be recovered from the Government corresponds to the difference between the interest expenses accrued on borrowings from the Financing Fund for the acquisition of fixed assets, plus the accumulated depreciation on those assets, and the subsidies received from the Gouvernement du Québec to make the payments on said borrowings.

Deferred Government contributions

Subsidies for the acquisition of fixed assets and the valuable consideration assigned to assets acquired by donation are recorded as deferred Government contributions and transferred to operations using the same methods and rates of depreciation as those used for the fixed assets concerned.

The subsidy and related financial proceeds bound by an external appropriation to charges for future fiscal years are posted to proceeds in the fiscal year during which the corresponding charges are posted.

Cash and cash equivalents

The Société's policy consists in presenting under cash and cash equivalents bank balances including bank overdrafts, whose balances often fluctuate between overdraft and available amounts, and short-term investments maturing within three months of the date they were acquired.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**3. OPERATING EXPENSES**

	2004	2003
Salaries and fringe benefits	\$20 198 576	\$19 310 991
Operating contracts	1 569 527	1 057 392
Fuel	4 137 755	4 238 145
Maintenance and repairs – Vessels	5 020 185	5 682 452
Maintenance and repairs – Wharves	5 186 089	3 983 706
Maintenance and repairs – Buildings	530 812	495 691
Property and school taxes	948 833	971 962
Insurance	1 595 752	1 409 298
Other	2 198 863	2 894 947
Amounts recovered from insurers		(255 899)
	<u>\$41 386 392</u>	<u>\$39 788 685</u>

4. ADMINISTRATIVE EXPENSES

	2004	2003
Salaries and fringe benefits	\$3 182 133	\$3 396 923
Staff training	186 828	151 635
Stationery and printing	95 902	91 773
Professional fees	136 809	216 107
Other	491 420	429 037
	<u>\$4 093 092</u>	<u>\$4 285 475</u>

5. OTHER REVENUE

	2004	2003
Interest on bank deposits	\$126 892	\$119 860
Interest on adjustment to the Commission de la santé et de la sécurité du travail assessment	7 074	23 484
Docking fees	69 892	47 132
Parking and miscellaneous	106 307	71 676
Vending machines and food concession	212 519	168 093
Advertising	33 651	28 816
Vessel rental	8 500	2 700
Space rental	18 093	16 680
Gain (loss) on disposal of fixed assets	366 443	(9 689)
	<u>\$949 371</u>	<u>\$468 752</u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

6. GOVERNMENT CONTRIBUTIONS

	2004	2003
Gouvernement du Québec subsidies		
Operating subsidy	\$38 326 842	\$38 336 815
Government contributions collectable	1 511 496	(319 539)
	<u>39 838 338</u>	<u>38 017 276</u>
Transfer of deferred Government contributions		
Related to the financial compensation from the transfer of federal wharves (Note 11)	3 001 525	1 872 553
Related to fixed assets (Note 12)	2 100 022	2 230 403
	<u>5 101 547</u>	<u>4 102 956</u>
	<u>\$44 939 885</u>	<u>\$42 120 232</u>

7. ACCOUNTS RECEIVABLE

	2004	2003
Transportation sector	\$375 460	\$262 711
Government sector	52 457	361 365
Ministère des Transports subsidy receivable	933 042	616 000
Accident claim receivable	25 044	218 557
Other	43 784	24 928
	<u>\$1 429 787</u>	<u>\$1 483 561</u>

8. CONTRIBUTION TO BE RECOVERED FROM THE GOVERNMENT

The Government committed to paying the Société the sums required to discharge its obligations regarding borrowings from the Financing Fund for the acquisition of fixed assets, after ensuring that the Société is unable to discharge them itself.

The contribution to be recovered is as follows:

	2004	2003
Opening balance	\$24 110 938	\$24 430 478
Depreciation of fixed assets financed on a long-term basis	5 425 536	5 277 227
Accrued interest on borrowings	4 344 267	4 203 454
	<u>33 880 741</u>	<u>33 911 159</u>
Government contributions received	<u>(8 258 307)</u>	<u>(9 800 221)</u>
Closing balance	<u>\$25 622 434</u>	<u>\$24 110 938</u>

SOCIÉTÉ DES TRAVERSISERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**8. CONTRIBUTION TO BE RECOVERED FROM THE GOVERNMENT (cont'd)**

This balance relates to the following balance sheet items:

	2004	2003
Borrowings from the Financing Fund (Note 10)	\$63 581 281	\$60 694 124
Unamortized cost of fixed assets financed on a long-term basis (Note 9)	<u>(38 938 135)</u>	<u>(37 516 826)</u>
	24 643 146	23 177 298
Accrued interest on borrowings	<u>979 288</u>	<u>933 640</u>
	<u>\$25 622 434</u>	<u>\$24 110 938</u>

9. FIXED ASSETS

	2004				2003	
	Financed on a long-term basis (Note 8)	Acquired from the Gouver- nement du Québec	Acquired by donation (Note 12)	Other	Total	Total
Cost						
Land			\$173 794	\$21 972	\$195 766	\$83 819
Wharves	\$932 712	\$23 108 643	40 401 297	721 870	65 164 522	65 164 522
Buildings	2 625 000	1 707 067	4 994 279	1 741 585	11 067 931	10 815 184
Vessels	103 483 468		29 228 708	1 838 851	134 551 027	129 608 556
Furniture and equipment			12 738	2 221 477	2 234 215	1 973 528
Automotive equipment				123 149	123 149	123 149
Leasehold improvements			215 930	637 794	853 724	853 724
	<u>107 041 180</u>	<u>24 815 710</u>	<u>75 026 746</u>	<u>7 306 698</u>	<u>214 190 334</u>	<u>208 622 482</u>
Accumulated depreciation						
Wharves	297 648	9 964 443	9 378 946	97 318	19 738 355	17 347 504
Buildings	105 000	1 171 375	2 797 437	505 366	4 579 178	4 378 622
Vessels	67 700 397		28 139 096	1 191 963	97 031 456	91 437 904
Furniture and equipment			8 350	1 400 314	1 408 664	1 302 117
Automotive equipment				97 108	97 108	85 946
Leasehold improvements			215 930	637 794	853 724	818 043
	<u>68 103 045</u>	<u>11 135 818</u>	<u>40 539 759</u>	<u>3 929 863</u>	<u>123 708 485</u>	<u>115 370 136</u>
Net value	<u>\$38 938 135</u>	<u>\$13 679 892</u>	<u>\$34 486 987</u>	<u>\$3 376 835</u>	<u>\$90 481 849</u>	<u>\$93 252 346</u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

10. LONG-TERM DEBT

	2004	2003
Owed to the Gouvernement du Québec, payable on request, interest-free and according to the terms agreed upon by the Minister of Finance and the Société under an agreement regarding the Government's transfer of buildings and wharves to the Société	\$25 551 410	\$25 551 410
Borrowings from the Financing Fund, 8.49%, repayable in semi-annual instalments of \$1 766 415, maturing June 2011	19 271 984	21 054 565
Borrowing from the Financing Fund, 6.96%, repayable in semi-annual instalments of \$1 725 967, maturing January 2018	30 548 310	31 812 419
Borrowing from the Financing Fund, 5.97%, repayable in an instalment of \$704 110, maturing April 2003		683 702
Borrowing from the Financing Fund, 5.06%, repayable in semi-annual instalments of \$280 938, maturing January 2018	5 641 347	
Borrowing from the Financing Fund, 5.68%, repayable in semi-annual instalments of \$288 635, maturing January 2018	5 520 099	5 723 936
Borrowing from the Financing Fund, 6.04%, repayable in semi-annual instalments of \$102 319, maturing January 2028	2 599 541	1 419 502
	89 132 691	86 245 534
Instalments due within one year	3 943 919	3 934 228
	<u>\$85 188 772</u>	<u>\$82 311 306</u>

Payments of principal on loans for the next five fiscal years are as follows:

2005	\$3 943 919
2006	4 185 811
2007	4 502 046
2008	4 842 753
2009	5 209 860

11. DEFERRED GOVERNMENT CONTRIBUTIONS RELATED TO FINANCIAL COMPENSATION FROM THE TRANSFER OF FEDERAL WHARVES

Under an agreement signed on March 30, 2001, effective June 19, 2000, the Gouvernement du Québec transferred to the Société ownership of port facilities of an assigned value of \$35 525 305, located on the site of the ten ferry terminals received from the Government of Canada, and financial compensation of \$36 300 000 associated with this transfer. Under this agreement, the Société must use this lump sum, as well as the proceeds from its investment, exclusively for the operation, maintenance and repair of the ten terminals.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

11. DEFERRED GOVERNMENT CONTRIBUTIONS RELATED TO FINANCIAL COMPENSATION FROM THE TRANSFER OF FEDERAL WHARVES (cont'd)

	2004	2003
Opening balance	\$38 155 516	\$37 770 246
Interest earned	2 203 000	2 200 975
Amortization of discount (premiums) on investments	134 188	99 847
Acquisition of fixed assets		(41 451)
Safekeeping charges	(1 107)	(1 460)
Gain (loss) on disposal of investment	104 182	(88)
	<u>40 595 779</u>	<u>40 028 069</u>
Transfer to operations of an amount equivalent to net maintenance and repair costs for the federal wharves	<u>(3 001 525)</u>	<u>(1 872 553)</u>
	<u>\$37 594 254</u>	<u>\$38 155 516</u>

This balance relates to the following balance sheet items:

Investment of compensation for federal wharves comprising:

Cash	\$90 909	\$92 586
Compulsory market investment (market value: \$43 890 759)	37 091 814	37 653 315
Accrued interest receivable	<u>411 531</u>	<u>409 615</u>
	<u>\$37 594 254</u>	<u>\$38 155 516</u>

Compulsory investments include interest of 4% to 12.25%. Maturity dates range from February 2006 to July 2025.

12. DEFERRED GOVERNMENT CONTRIBUTIONS RELATED TO FIXED ASSETS

	2004	2003
a) Gouvernement du Québec		
Opening balance	\$5 476 001	\$6 023 044
Contribution for the fiscal year	<u>40 084</u>	<u>40 084</u>
	5 476 001	6 063 128
Transfer to operations of the following amounts:		
Amortization of fixed assets subsidized or acquired by donation	(519 834)	(587 127)
Unamortized balance on immovable sold during the year	<u>(18 988)</u>	<u>(18 988)</u>
Closing balance (Amounts carried forward)	<u>\$4 937 179</u>	<u>\$5 476 001</u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

12. DEFERRED GOVERNMENT CONTRIBUTIONS RELATED TO FIXED ASSETS (cont'd)

	2004	2003
Amounts brought forward	<u>\$4 937 179</u>	<u>\$5 476 001</u>
b) Gouvernement du Canada		
Opening balance	30 937 214	32 539 039
Contribution to the fiscal year	<u>30 937 214</u>	<u>41 451</u>
	30 937 214	32 580 490
Transfer to operations of an amount equal to the depreciation of subsidized or donated fixed assets	<u>(1 561 200)</u>	<u>(1 643 276)</u>
Closing balance	<u>29 376 014</u>	<u>30 937 214</u>
	<u>\$34 313 193</u>	<u>\$36 413 215</u>

This balance relates to the following items:

Land	\$173 794	\$63 794
Wharves	31 022 351	32 655 107
Buildings	2 196 842	2 459 926
Vessels	1 089 612	1 281 896
Fixtures and equipment	4 388	5 485
Leasehold improvements	<u>10 801</u>	<u>10 801</u>
	34 486 987	36 477 009
Deduct: Government share recorded as contributed surplus (Note 14)	<u>(173 794)</u>	<u>(63 794)</u>
	<u>\$34 313 193</u>	<u>\$36 413 215</u>

13. CAPITAL STOCK

	2004	2003
Authorized:		
100 000 shares with a par value of \$100 each		
Issued and paid up:		
15 000 shares	<u>\$1 500 000</u>	<u>\$1 500 000</u>

14. CONTRIBUTED SURPLUS

	2004	2003
Government share related to property acquired by donation (Note 12)	<u>\$173 794</u>	<u>\$63 794</u>

The government share in property acquired through donation, including the amount recorded (\$110 000) during the year, is henceforth presented as a contributed surplus.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

15. COMMITMENTS

The Société is committed to long-term leases, expiring in 2004, for office space at the Port of Québec and in 2019 at the Lévis terminal. The Lévis terminal lease includes an additional 14-year renewal option.

Under service agreements with three water carriers aimed at maintaining ferry services, the Société is committed to paying these carriers an annual amount to cover certain allowances and to make up their budgetary deficit.

Lease payments for the year ended March 31, 2004 amount to \$61 342. Remuneration paid to carriers amounts to \$1 569 527.

At March 31, 2004, the Société's commitments for the next five fiscal years are as follows:

	Leases	Services agreements *
2005	\$53 360	\$1 747 000
2006	46 000	1 599 500
2007	47 000	509 500
2008	48 000	
2009	49 000	
	<u>\$243 360</u>	<u>\$3 856 000</u>

* Services agreements are based on an estimate of projected contract costs and budgetary deficits of carriers.

16. CASH FLOWS

	2004	2003
Cash and cash equivalents		
Cash on hand	<u>\$4 285 598</u>	<u>\$2 241 042</u>

Interest paid during the fiscal year amounts to \$4 298 620 (2003: \$4 320 734).

17. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

18. PENSION PLANS

Most of the staff members of the Société participate in the Government and Public Employees Retirement Plan or the Pension Plan of Management Personnel. These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement amount to \$507 392 (2003: \$529 803). The Société's liability towards this Government plan is restricted to its contributions as an employer.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

19. FINANCIAL INSTRUMENTS**Long-term debt**

At March 31, 2004, the fair value of the long-term debt of \$89 132 691 (2003: \$86 245 534) was \$97 075 946 (2003: \$92 187 059) given the discounting of cash flows at the market rate for certificates of indebtedness with similar maturity dates and interest rates. However, in the fair value mentioned above, an amount of \$25 551 410, owing to the Gouvernement du Québec, was not assessed and was considered at book value given the lack of a market for this type of long-term debt.

Short-term borrowing

At March 31, 2004, the Société was able to meet its short-term cash needs through short-term borrowings or a credit line with financial institutions or the Government's Financing Fund. These credit lines were authorized to an amount of \$13 500 000 up to March 31, 2004, and, after that date, to \$5 000 000 until July 31, 2007.

Other assets and liabilities

The fair value of cash, accounts receivable, accounts payable and accrued liabilities is equal to their book value, given that they mature in the near future.

20. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société des traversiers du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual management report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties and has approved the financial statements.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Jean-Yves Gagnon
President and Chief Executive Officer

Québec, June 10, 2004

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Société des Traversiers du Québec as at March 31, 2004 and the statements of income and deficit and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 10, 2004

SOCIÉTÉ D'HABITATION DU QUÉBEC
(R.S.Q., c. S-8)

REVENUE AND EXPENDITURE
for the year ended December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u> (Note 3)
REVENUE		
Contributions (Note 4)		
Canada Mortgage and Housing Corporation	305 629	237 624
Gouvernement du Québec	<u>298 964</u>	<u>302 622</u>
	604 593	540 246
Fees (Note 5)	843	529
Interest and other revenue	<u>675</u>	<u>420</u>
	<u>606 111</u>	<u>541 195</u>
EXPENDITURE		
Program costs (Note 4)	574 044	507 879
Administrative expenses (Note 6)	<u>32 067</u>	<u>33 316</u>
	<u>606 111</u>	<u>541 195</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC

BALANCE SHEET
as at December 31, 2003
(in thousands of dollars)

	<u>2003</u>	<u>2002</u> (Note 3)
ASSETS		
Current assets		
Cash and cash equivalents (Note 7)	29 927	11 165
Accounts receivable (Note 8)	<u>126 718</u>	<u>49 238</u>
	156 645	60 403
Contribution recoverable – Gouvernement du Québec (Note 12)	7 804	7 584
Fixed assets (Note 9)	<u>4 450</u>	<u>3 570</u>
	<u>168 899</u>	<u>71 557</u>
LIABILITIES		
Current liabilities		
Short-term borrowing (Note 10)	4 450	3 500
Accounts payable (Note 11)	99 316	52 259
Provision for vacation time (Note 13)	<u>2 371</u>	<u>2 445</u>
	106 137	58 204
Deferred contribution – Canada Mortgage and Housing Corporation	48 805	
Allowance for losses on loan guarantees (Note 12)	7 804	7 584
Provision for sick leave (Note 13)	<u>6 153</u>	<u>5 769</u>
	<u>168 899</u>	<u>71 557</u>

COMMITMENTS AND CONTINGENCIES (Notes 17 and 18)

On behalf of the Board of Directors,
Christiane Carle, Chairman of the Board of Directors
Pierre Cliche, Président and CEO

SOCIÉTÉ D'HABITATION DU QUÉBEC

CASH FLOWS

for the year ended December 31, 2003

(in thousands of dollars)

	2003	2002 (Note 3)
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Cash receipts – government contributions	570 957	552 113
Cash receipts – honoraria	917	653
Cash receipts – other	195	49
Disbursements – program cost	(521 918)	(516 075)
Disbursements – administrative fees	(30 033)	(29 306)
Interest received	500	433
Interest paid	(110)	(85)
	20 508	7 782
Amounts held for funding agencies (Note 14)		
Cash receipts – amounts received	1 191	831
Disbursements – amounts received	(1 066)	(1 062)
Interest received	7	6
	132	(225)
	20 640	7 557
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Short-term borrowings	950	
Repayment of the short-term borrowings		(484)
	950	(484)
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(2 828)	(2 009)
INCREASE IN CASH AND CASH EQUIVALENTS	18 762	5 064
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11 165	6 101
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7)	29 927	11 165

SOCIÉTÉ D'HABITATION DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS**

as at December 31, 2003

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Société d'habitation du Québec is a legal person incorporated under a special act (R.S.Q., c. S-8) to:

- inform the Minister on the requirements, priorities and objectives of all housing sectors in Québec;
- stimulate development and cooperation in respect of public and private initiatives in the field of housing;
- make low-rental housing available to the citizens of Québec;
- promote the development and implementation of programs related to housing construction, acquisition, development, restoration and management;
- facilitate the acquisition of real property by the citizens of Québec;
- promote housing improvement.

The Société d'habitation du Québec was mandated by Immobilière SHQ, a legal entity with partnership capital, agent of the State, incorporated under the Act respecting Immobilière SHQ (S.Q. 1999, c.16), to administer, in exchange for consideration, its property and the resulting obligations, and to see to the management of current business related to this property. In this regard, the Société d'habitation du Québec conferred on the Société de gestion immobilière SHQ, a legal entity incorporated under Part III of the Companies Act (R.S.Q., c. C-38), the mandate to administer certain Immobilière SHQ buildings.

2. ACCOUNTING POLICIES

The financial statements of the Société were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

a. Contributions

Contributions for program costs and the fiscal year's administrative costs are recorded as revenue when the costs related to these programs and administrative costs are also recorded.

The Canada Mortgage and Housing Corporation acts on behalf of the Government of Canada concerning the programs contemplated by Canada-Québec framework agreements.

b. Program costs

Subsidies for program costs are recorded to expenditures when the events related to them occur, provided they had been authorized and the beneficiaries met the eligibility criteria, where applicable.

c. Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

d. Cash and cash equivalents

Cash and cash equivalents comprise cash and highly liquid short-term investments that can easily be converted into a known amount of cash, whose value is unlikely to change significantly.

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2003
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**e. Fixed assets**

Fixed assets are recorded at cost.

Computer development includes the cost of system design, execution, implementation and improvement.

Fixed assets are amortized using the straight-line method over their estimated service life:

Computer development	5 years
Equipment	3 years

f. Provision for losses on loan guarantees

This provision is established by applying a rate based on past experience to the guaranteed loans.

3. CHANGE IN ACCOUNTING POLICY

The financial statements for the year ended December 31, 2003 were presented to record all obligations resulting from employer contributions for vacation time and sick leave accumulated by Société employees at the end of the fiscal year as liabilities under "Provision for vacation time" and "Provision for sick leave". Formerly, these employer contributions were recorded to operations in the fiscal year in which the employees used their vacation time or sick leave.

The retroactive application of this modification resulted in an increase in the following items in the financial statements:

	<u>2002</u>
Revenue and expenditure	
Gouvernement du Québec contribution	157
Administrative expenses	157
Balance sheet	
Receivables	
Contribution receivable – Gouvernement du Québec	1 182
Provision for vacation time	345
Provision for sick leave	837

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2003

(in thousands of dollars)

4. PROGRAM COSTS AND CONTRIBUTIONS

Program	2003			2002		
	Cost	Contributions		Cost	Contributions	
		Gouvernement du Québec	CMHC ^a		Gouvernement du Québec	CMHC ^a
Affordable, community social housing assistance						
Non-profit housing						
Public (Note 10)						
Regular component	207 143	84 207	122 936	216 236	88 027	128 209
Inuit component	57 124	24 992	32 132	51 262	21 689	29 573
	264 267	109 199	155 068	267 498	109 716	157 782
Private						
Housing cooperatives and non-profit organizations	25 506	6 395	19 111	27 254	7 345	19 909
Native housing – urban	6 877	1 735	5 142	6 881	1 819	5 062
Native housing – rural	5 690	1 431	4 259	6 040	1 519	4 521
	38 073	9 561	28 512	40 175	10 683	29 492
	302 340	118 760	183 580	307 673	120 399	187 274
Housing allowance for the elderly and families	91 480	91 480		93 597	93 597	
AccèsLogis Québec for non-profit - cooperative housing	91 350	11 686	79 664	14 363	9 913	4 450
Rent supplement	39 150	20 701	18 449	37 766	19 857	17 909
Logement abordable Québec						
Social and community component	5 153	202	4 951			
Kativik region component	3 327		3 327			
Private component	394		394			
Emergency assistance in the context of the rental housing shortage						
2002 program	3 719	3 719		2 876	2 876	
2003 program	3 554	3 554				
Achat-Rénovation for non-profit, cooperative housing	2 160	2 160		2 245	2 245	
Assistance for community Organizations	1 120	1 120		1 300	1 300	
Housing initiative in Nunavik	202	202		521	521	
Achat-rénovation for owner occupants in the Kativik area	5	5		5	5	
Sub-total(Amounts carried forward)	543 954	253 589	290 365	460 346	250 713	209 633

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2003
(in thousands of dollars)

4. PROGRAM COSTS AND CONTRIBUTIONS (cont'd)

Program	2003			2002		
	Cost	Contributions		Cost	Contributions	
		Gouvernement du Québec	CMHC ^a		Gouvernement du Québec	CMHC ^a
Amounts brought forward	543 954	253 589	290 365	460 346	250 713	209 633
Housing improvement						
RénoVillage	11 166	5 018	6 148	13 679	6 075	7 604
Assistance program for the improvement of nursing homes	6 779	5 465	1 314	7 406	6 245	1 161
Assistance program for the revitalization of core areas	5 215	5 215		10 645	4 782	5 863
Assistance for owners of residential buildings damaged by pyrite oxidation	3 915	2 698	1 217	2 980	2 173	807
Improvements to shelters	1 168	367	801	3 943	1 275	2 668
Emergency repairs	737	223	514	1 724	431	1 293
Rénovation résidentielle – Radisson	436	436		234	234	
Home adaptations for greater autonomy of seniors	120	25	95	5 760	1 417	4 343
Purchase assistance in Radisson	107	107				
Radon	23	23				
Rénovation Québec	2	2				
Sub-total	29 668	19 579	10 089	46 371	22 632	23 739
Access to home ownership						
Access to home ownership for residents of the Kativik area	203	203		330	330	
Housing in isolated regions	125	125		98	98	
Sub-total	328	328		428	428	
Industrial support						
Support for the development of the Québec housing industry	653	653		865	865	
Various program in the termination phase^b						
	(559)	(547)	(12)	(131)	(102)	(29)
Total	574 044	273 602	300 442	507 879	274 536	233 343

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2003
(in thousands of dollars)

4. PROGRAM COSTS AND CONTRIBUTIONS (cont'd)

Program	2003		2002	
	Cost	Contributions	Cost	Contributions
		Gouvernement du Québec CMHC ^a		Gouvernement du Québec CMHC ^a
Contributions				
Cost of program		273 602 300 442		274 536 233 343
Administrative expenses (Note 6)		<u>25 362</u> <u>5 187</u>		<u>28 086</u> <u>4 281</u>
		<u>298 964</u> <u>305 629</u>		<u>302 622</u> <u>237 624</u>

a Canada Mortgage and Housing Corporation.

b The various programs in the termination phase grouped together in this item are: Rental building renovation, Canada-Québec Rehabilitation Assistance, VirageRénovation (Home renovation stimulation program), Downpayment Assistance, Renovation Assistance and Assistance for Community Housing.

5. FEES

	2003	2002
Immobilière SHQ	609	435
Société de gestion immobilière SHQ	47	58
Gouvernement du Québec	39	13
Miscellaneous organizations	<u>148</u>	<u>23</u>
	<u>843</u>	<u>529</u>

6. ADMINISTRATIVE EXPENSES

	2003	2002
Salaries and other remuneration (Note 15)	22 554	22 215
Transportation and communications	1 364	1 734
Professional services	2 697	3 064
Maintenance and repairs	336	204
Rent	2 425	2 508
Materials and supplies	466	797
Miscellaneous subsidies	56	130
Interest on short-term borrowings (Note 10)	112	71
Depreciation of fixed assets	1 948	2 545
Other	<u>109</u>	<u>48</u>
	<u>32 067</u>	<u>33 316</u>

These administrative expenses are offset, to a great extent, by the following contributions:

Gouvernement du Québec	25 362	28 086
Canada Mortgage and Housing Corporation	<u>5 187</u>	<u>4 281</u>
	<u>30 549</u>	<u>32 367</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2003
(in thousands of dollars)

7. CASH AND CASH EQUIVALENTS

	2003	2002
Cash on hand	1 261	3 196
Short-term investment, at cost, 2.79% to 2.87%	28 666	7 969
	<u>29 927</u>	<u>11 165</u>

8. ACCOUNTS RECEIVABLE

	2003	2002
Contribution receivable		
Canada Mortgage and Housing Corporation	108 473	21 635
Gouvernement du Québec	9 760	14 396
Subsidy beneficiaries	8 040	11 897
Société de gestion immobilière SHQ	159	421
Accrued interest	85	23
Other	201	866
	<u>126 718</u>	<u>49 238</u>

9. FIXED ASSETS

	2003			2002
	Cost	Accumulated depreciation	Net	Net
Computer development	9 279	6 197	3 082	2 137
Equipment	4 742	3 374	1 368	1 433
	14 021	9 571	4 450	3 570

10. SHORT-TERM BORROWING

The Société d'habitation du Québec is authorized to take up short-term borrowings from financial institutions to a maximum of \$30 million.

Any loan contracted under this authorization bears interest at the rate negotiated at the time of the borrowing, which generally corresponds to 1.5% less than the prime rate. The rate at December 31, 2003 was 2.8%.

Interest on the short-term borrowing for the fiscal year is recorded to the following expenditure items:

	2003	2002
Cost of programs – Non-profit housing – Public (Note 4)		13
Administrative expenses – Interest on short-term borrowings (Note 6)	112	71
	<u>112</u>	<u>84</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2003
(in thousands of dollars)

11. ACCOUNTS PAYABLE

	2003	2002
Subsidy beneficiaries	97 275	49 203
Suppliers and other	1 397	2 227
Société de gestion immobilière SHQ	361	581
Sums held on behalf of granting agencies (Note 14)	212	80
Gouvernement du Québec	65	164
Accrued interest	6	4
	<u>99 316</u>	<u>52 259</u>

12. ALLOWANCE FOR LOSSES ON LOAN GUARANTEES

	2003	2002
Opening balance	7 584	5 453
Allowance for the year	1 273	2 274
Fulfilment of guarantees	<u>(1 053)</u>	<u>(143)</u>
Closing balance	<u>7 804</u>	<u>7 584</u>

The allowance breaks downs by programs as follows:

	2003	2002
Programs		
AccèsLogis Québec for non-profit, cooperative housing	5 566	4 900
Achat-Rénovation for non-profit, cooperative housing	843	1 389
Non-profit housing – Private	637	700
Assistance for community housing	587	595
Logement abordable Québec – social and community component	<u>171</u>	<u> </u>
	<u>7 804</u>	<u>7 584</u>

A recoverable Gouvernement du Québec contribution is recorded to cover this provision.

13. PROVISION FOR VACATION TIME AND SICK LEAVE

	2003		2002	
	Vacation time	Sick leave	Vacation time	Sick leave
Opening balance	2 445	5 769	2 127	5 148
Provision for the year	1 947	682	1 862	664
Benefits paid during the year	<u>(2 021)</u>	<u>(298)</u>	<u>(1 544)</u>	<u>(43)</u>
Closing balance	<u>2 371</u>	<u>6 153</u>	<u>2 445</u>	<u>5 769</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2003
(in thousands of dollars)

14. SUMS HELD ON BEHALF OF GRANTING AGENCIES

The sums received from granting agencies under the AccèsLogis Québec and the Achat-Rénovation programs for non-profit, cooperative housing are redistributed to organizations working in the non-profit, cooperative housing sector.

	2003	2002
Opening balance	80	305
Plus:		
Sums received	1 191	831
Interest income	7	6
	1 278	1 142
Less:		
Amounts paid out	1 066	1 062
Closing balance	212	80

The amount held at year-end is posted to "Cash and cash equivalent" and "Accounts receivable" under the heading "Assets" and to "Accounts payable" under the heading "Liabilities".

15. PENSION PLANS

The staff members of the Société participate in the Pension Plan of Management Personnel (PPMP), the Government and Public Employees Retirement Plan (RREGOP) or the Civil Service Superannuation Plan (CSSP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement or death.

The Société's contributions charged to the year-end statement and recorded as administrative expenses amount to \$0.8 million (2002: \$0.7 million). The Société's liability towards these government plans is restricted to its contributions as an employer.

16. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

The fair value of the provision for losses on loan guarantees and the corresponding Gouvernement du Québec contribution receivable is equal to the book value given that the provision is reassessed annually.

17. COMMITMENTS

AccèsLogis Québec program for non-profit, cooperative housing, Achat-Rénovation program for non-profit, cooperative housing, Rénovation Québec, Revitalisation des vieux quartiers et Logement abordable Québec – social, community and private components.

The Société repays the principal and interest on all loans contracted under these programs, up to the grant amount committed by the Société. As at December 31, 2003, these commitments amount to \$89 million (2002: \$105 million).

SOCIÉTÉ D'HABITATION DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2003

(in thousands of dollars)

18. CONTINGENCIES**Secured loans**

For the AccèsLogis Québec program for non-profit cooperative housing, Achat-Rénovation program for non-profit, cooperative housing et Logement abordable – Social et communautaire, the Société guarantees the reimbursement of loans granted by financial institutions. These loan repayment guarantees cover a period of 25 or 35 years once the Société agrees to the extension for the AccèsLogis Québec and Logement abordable – social and community programs and 25 years for the Achat renovation program. The amount of loans thus guaranteed totalled \$297 million at December 31, 2003 (2002: \$188 million).

The Société entered into agreements with the Canada Mortgage and Housing Corporation in relation to the non-profit private housing program, the assistance for community housing program and the housing assistance program for isolated regions. Pursuant to these agreements, the Société has agreed to acquire the properties of which it has recovered possession following a default in payment by the borrower, for a purchase price equal to the value of the claim paid to the approved lender plus incidental expenses. The guarantees granted for programs covering 25 years apart from those related to loans granted in urban regions for Logement à but non lucratif – Privé programs, which run 35 years. The balance of the loans which are subject to these agreements totalled approximately \$398 million as at December 31, 2003 (2002: \$409 million).

Programs for which a provision for losses is required are disclosed in Note 12.

Housing initiative in Nunavik program

Under this program, the Société made the commitment to make a contribution equal to the amounts cashed by the Office municipal d'habitation Kativik in rental arrears prior to December 31, 1999 up to an amount of \$2.9 million. The balance of this commitment was \$2.2 million at December 31, 2003 (2002: \$2.4 million).

Lawsuits

The balance of court proceedings in damages and interest instituted against the Société amounts to \$4.6 million. In the opinion of the Société, these lawsuits can result in no significant liability.

With regard to the balance of court proceedings in damages and interest instituted against Immobilière SHQ, any relative loss will be assumed by the housing offices and included in their operating deficit, which is subsidized by the Société. In the Société's opinion, no major liability can result from these proceedings.

19. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Société did not conclude any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

20. COMPARATIVE FIGURES

Certain 2002 figures were reclassified for consistency with the presentation adopted in 2003.

SOCIÉTÉ D'HABITATION DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société d'habitation du Québec were drawn up by the management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial position and the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. The internal audit and investigations department carries out audits periodically to ensure that the internal controls applied regularly by the Société are appropriate and consistent.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. The board of directors oversees the manner in which management performs its financial reporting duties, meets with management and the Auditor General, and reviews the financial statements.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Pierre Cliche
President and Chief Executive Officer

Yves Poirier
Vice-President, Administration and Business Strategies

Québec, March 19, 2004

AUDITOR'S REPORT

To the National Assembly

I have examined the balance sheet of the Société d'habitation du Québec as at December 31, 2003, the statements of the statements of revenue and expenditure and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at December 31, 2003 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, March 19, 2004

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC
(R.S.Q., c. S-14.001)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING REVENUE		
Rental of space for events	\$2 008 927	\$2 031 951
Royalties (Note 3)	1 299 676	1 505 765
Ancillary operations (Note 4)	<u>1 658 992</u>	<u>1 831 529</u>
	<u>4 967 595</u>	<u>5 369 245</u>
NET EXPENSES RELATED TO OTHER REVENUE		
Hosting of events - expenses (Note 5)	1 415 603	1 460 229
Administrative and operating expenses (Note 6)	8 170 356	7 518 409
Taxes	3 519 468	3 171 069
Financial expenses – net (Note 7)	3 063 059	2 933 102
Other revenue	<u>(264 364)</u>	<u>(243 697)</u>
	<u>15 904 122</u>	<u>14 839 112</u>
DEFICIT OF REVENUE OVER EXPENDITURE BEFORE OPERATING SUBSIDY AND OTHER ITEMS:	(10 936 527)	(9 469 867)
Operating subsidy from the Gouvernement du Québec (Note 9)	<u>10 780 362</u>	<u>9 671 949</u>
(DEFICIT) EXCESS REVENUE OVER EXPENDITURE THE FOLLOWING ITEMS:	(156 165)	202 082
Gain on disposal of fixed assets	5 050	3 000
Gouvernement du Québec subsidy for fixed assets (Note 9)	2 039 980	2 076 131
Depreciation of fixed assets	(2 926 175)	(2 851 778)
Amortization of deferred contributions (Note 13)	<u>863 167</u>	<u>752 620</u>
(DEFICIT) EXCESS REVENUE OVER EXPENDITURE	(174 143)	182 055
SURPLUS, BEGINNING OF YEAR	<u>1 105 830</u>	<u>923 775</u>
SURPLUS, END OF YEAR	<u>\$931 687</u>	<u>\$1 105 830</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

BALANCE SHEET
as at March 31, 2004

	2004	2003
ASSETS		
Current assets		
Cash on hand	\$1 149 922	\$2 397 668
Term deposits at rates of 2.6 to 3.2%	1 900 000	2 325 000
Accounts receivable and accrued interest	804 703	1 691 435
Prepaid expenses	938 721	819 120
	<u>4 793 346</u>	<u>7 233 223</u>
Fixed assets (Note 10)	88 234 533	90 027 272
Deferred expenses at amortized cost	<u>192 922</u>	<u>252 276</u>
	<u><u>\$93 220 801</u></u>	<u><u>\$97 512 771</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals (Note 12)	\$3 475 434	\$2 759 025
Customer deposits and deferred revenues	928 594	876 639
Deferred Gouvernement du Québec subsidy (Note 9)	733 964	3 839 614
Instalments on long-term debt (Note 14)	3 558 583	3 402 683
	<u>8 696 575</u>	<u>10 877 961</u>
Deferred Gouvernement du Québec subsidy (Note 9)	4 129 354	2 777 481
Deferred contributions (Note 13)	26 080 376	25 810 107
Long-term debt (Note 14)	<u>51 850 559</u>	<u>55 409 142</u>
	<u>90 756 864</u>	<u>94 874 691</u>
EQUITY		
Contributed surplus (Note 15)	1 532 250	1 532 250
Surplus	<u>931 687</u>	<u>1 105 830</u>
	<u>2 463 937</u>	<u>2 638 080</u>
	<u><u>\$93 220 801</u></u>	<u><u>\$97 512 771</u></u>

On behalf of the Board of Directors,
 Claude Pinault, Director
 Paule-Anne Morin, Director, Adm. A., CMC

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC**CASH FLOWS**

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
(Deficit) Excess revenue over expenditure	\$(174 143)	\$182 055
Elements not affecting cash flow:		
Gain on disposal of fixed assets	(5 050)	(3 000)
Amortization of deferred expenses	59 354	54 488
Depreciation of fixed assets	2 926 175	2 851 778
Amortization of deferred contributions	<u>(863 167)</u>	<u>(752 620)</u>
	1 943 169	2 332 701
Change in non-cash elements of the Working Capital Fund (Note 16)	<u>802 083</u>	<u>(1 068 048)</u>
Cash flows provided by operating activities	<u>2 745 252</u>	<u>1 264 653</u>
INVESTMENT ACTIVITIES		
Proceeds from the sale of fixed assets	5 050	3 000
Acquisition of fixed assets	<u>(400 024)</u>	<u>(936 774)</u>
Cash flows used for investment activities	<u>(394 974)</u>	<u>(933 774)</u>
FINANCING ACTIVITIES		
Deferred Gouvernement du Québec subsidy	(1 753 777)	5 110 452
Deferred contributions	1 133 436	158 502
Deferred expenses		(304 579)
Repayment of long-term debt	(3 402 683)	(5 173 807)
Long-term debt	<u>2 044 303</u>	<u>2 044 303</u>
Cash flows (used for) provided by financing activities	<u>(4 023 024)</u>	<u>1 834 871</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1 672 746)	2 165 750
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4 722 668</u>	<u>2 556 918</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 16)	<u><u>\$3 049 922</u></u>	<u><u>\$4 722 668</u></u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société du Centre des congrès de Québec was established under a special act (R.S.Q., c. S-14.001) on July 1, 1993. Its purpose is to:

- manage and operate the Centre des congrès de Québec;
- prepare development or operational plans for the Centre des congrès;
- carry on such commercial and other activities as may foster the development of the Centre des congrès and take up their operation, promotion and management.

2. ACCOUNTING POLICIES

The financial statements of the Société were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Deferred Gouvernement du Québec subsidy

The deferred subsidy from the Government corresponds to the difference between the interest expenses accrued on borrowings from the Financing Fund for the acquisition of fixed assets plus the accumulated depreciation on the portion of these assets (net of accumulated amortization of deferred contributions) and acquisitions of non-capitalizable property financed by these borrowings, and the subsidies received from the Gouvernement du Québec to pay back these borrowings.

Fixed assets

The land and building, which were acquired for a nominal fee of \$1, were recorded at their municipal assessment value on the date of acquisition. Other fixed assets are recorded at cost.

Fixed assets are depreciated over the term of their anticipated service life according to the straight-line method as follows:

Buildings	40 years
Furniture and equipment	3 and 5 years

Deferred expenses

Deferred expenses include issuing and management expenses on borrowings from the Gouvernement du Québec's Financing Fund.

These expenses are amortized on a straight-line basis over the term of the borrowing. Amortization is included in financial expenses.

Gouvernement du Québec subsidy

The Société records and distributes the Gouvernement du Québec subsidy as follows:

- *Operating subsidy*
 - Contribution for the payment of interest on the long-term debt contracted to finance fixed assets and for the acquisition of non-capitalizable property funded.
 - Contribution for other expenses during the year.
- *Subsidy for fixed assets*
 - Contribution for repayment of the long-term debt contracted to finance depreciable fixed assets.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

2. ACCOUNTING POLICIES (cont'd)**Gouvernement du Québec subsidy (cont'd)**

- *Deferred contributions*
 - Contributions for the acquisition of depreciable fixed assets.

Deferred contributions

Contributions received for the acquisition of depreciable fixed assets and contributions in the form of depreciable fixed assets are deferred and transferred to revenue using the same methods and service life as those used for the depreciation of the fixed assets to which they refer.

Currency conversion

Assets and liabilities expressed in foreign currency are converted into Canadian dollars at the rate in effect the date of the financial statement. Results are converted at the exchange rate in effect the day of the transaction. Gains and losses on foreign exchange are charged to the fiscal year's operations.

Cash and cash equivalents

The Société's policy consists in presenting under cash and cash equivalents bank balances, short-term borrowings and short-term investments that are easy to convert in the short term to a known amount of cash whose value is not expected to change significantly.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. ROYALTIES

	2004	2003
Food services	\$937 504	\$986 441
Audiovisual services	311 164	447 561
Other	51 008	71 763
	<u>\$1 299 676</u>	<u>\$1 505 765</u>

4. ANCILLARY OPERATIONS

	2004	2003
Handling, shipping and hanging	\$413 402	\$332 499
Electricity, plumbing and other technical staff	392 603	399 161
Cleaning services	16 093	37 301
Furnishings and furniture	309 556	451 186
Audiovisual, sound and lighting	69 431	47 028
Telecommunications	310 854	226 132
Information, box office and cloakroom	67 382	245 873
Security	47 449	47 900
Other	32 222	44 449
	<u>\$1 658 992</u>	<u>\$1 831 529</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**5. HOSTING OF EVENTS - EXPENSES**

	2004	2003
Handling, shipping and hanging	\$259 126	\$226 677
Electricity, plumbing and other technical staff	156 831	153 952
Cleaning services	109 164	143 173
Furnishings and furniture	514 580	427 106
Audiovisual, sound and lighting	6 805	2 090
Telecommunications	31 964	26 905
Information, box office and cloakroom	184 717	271 480
Security	110 635	144 243
Other	41 781	64 603
	<u>\$1 415 603</u>	<u>\$1 460 229</u>

6. OPERATING AND ADMINISTRATIVE EXPENSES

	2004	2003
Salaries and fringe benefits	\$3 820 381	\$3 659 074
Insurance and permits	130 977	85 697
Power and heating	694 726	724 244
Caretaking	320 635	298 763
Cleaning services	179 064	181 417
Specialized maintenance services	692 216	694 304
Maintenance and repairs	1 078 681	740 819
Advertising, promotion and communication	719 098	602 136
Professional and administrative services	146 032	172 211
Travel and duty expenses	126 975	128 847
Telecommunications	83 033	76 016
Stationery, printing and office supplies	52 623	66 042
Professional development	114 444	67 418
Bad debts	11 471	21 421
	<u>\$8 170 356</u>	<u>\$7 518 409</u>

7. NET FINANCIAL EXPENSES

	2004	2003
Interest on long-term debt	\$3 135 315	\$2 998 592
Exchange loss (gain)	27 310	17 699
Other interest and bank expenses	9 098	135 385
	<u>3 171 723</u>	<u>3 151 676</u>
Interest on bank balances and term deposits	<u>108 664</u>	<u>218 574</u>
	<u>\$3 063 059</u>	<u>\$2 933 102</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

8. FINANCIAL INSTRUMENTS**Interest rate risk**

The Société's financial assets and liabilities bear interest at a fixed rate and, consequently, the interest rate fluctuation risks to which they are exposed are minimal. Further, the Société is not exposed to an interest rate risk on these financial liabilities given that interest payments are made from a specific Gouvernement du Québec subsidy.

Credit risk

The Société's exposure to credit risk corresponds to the book value of its financial assets. The credit risk related to its assets is not concentrated in a single activity sector. The Société evaluates its assets on an ongoing basis and records a provision for losses when the accounts are deemed uncollectible.

Exchange risk

The Société carries out certain operation in foreign currency. It does not hold or issue financial instruments in order to manage the risks to which it is exposed. However, these risks do not significantly influence the Société's results and financial position.

Fair value

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

The following table shows the book value and fair value of the Société's long-term financial instruments determined by the capitalization of cash flows at the market rate for securities of a similar nature:

	2004		2003	
	Book value	Fair value	Book value	Fair value
Long-term debt (including short-term portion)	<u>\$55 409 142</u>	<u>\$60 278 599</u>	<u>\$58 811 825</u>	<u>\$61 894 481</u>

9. GOUVERNEMENT DU QUÉBEC SUBSIDY

	2004	2003
Operating subsidy:		
Subsidy received for the year	\$14 200 000	\$15 000 000
Deferred contributions:		
Contribution for acquisition of depreciable fixed assets		(158 502)
Use of the subsidy deferred in the short term for non-capitalizable expenses	236 498	
Receipt – Subsidy for debt service ¹	<u>(6 791 451)</u>	<u>(8 252 473)</u>
	7 645 047	6 589 025
Contribution for payment of interest on long-term debt and related short-term borrowings contracted to finance depreciable fixed assets and for the acquisition non-capitalizable property funded ¹	<u>3 135 315</u>	<u>3 082 924</u>
Amounts carried forward	<u>\$10 780 362</u>	<u>\$9 671 949</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**9. GOUVERNEMENT DU QUÉBEC SUBSIDY (cont'd)**

	2004	2003
Amounts brought forward	\$10 780 362	\$9 671 949
Subsidy for fixed assets:		
Contribution for repayment of the long-term debt equivalent to the depreciation of related fixed assets (net of amortization of deferred contributions) ¹	2 039 980	2 076 131
	<u>\$12 820 342</u>	<u>\$11 748 080</u>

- 1 As at March 31, 2004, the subsidy to be recovered from the Gouvernement du Québec amounts to \$4 863 318 (March 31, 2003: \$6 617 095, including \$2 000 000 received in advance for the fiscal year ending March 31, 2004). The short-term portion of the deferred subsidy must be used to purchase fixed assets in the current year.

10. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net
Land	\$5 618 150		\$5 618 150
Buildings	100 844 131	\$19 974 544	80 869 587
Furniture and equipment	2 511 724	764 928	1 746 796
	<u>\$108 974 005</u>	<u>\$20 739 472</u>	<u>\$88 234 533</u>
			<u>\$90 027 272</u>

The cost and accumulated depreciation of fixed assets as at March 31, 2003 amount to \$107 972 610 and \$17 945 338 respectively.

11. SHORT-TERM BORROWINGS

The Société is authorized, under a short-term borrowing plan, to contract short-term borrowings to a maximum of \$4 000 000 until June 30, 2005. The borrowings contracted in this way will be refinanced in the long term. At March 31, 2004, the Société had no short-term borrowings.

12. CREDITORS AND ACCRUED LIABILITY

	2004	2003
Current operations	\$2 742 022	\$2 642 338
Fixed assets	733 412	116 687
	<u>\$3 475 434</u>	<u>\$2 759 025</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

13. DEFERRED CONTRIBUTIONS

	2004	2003
Deferred Gouvernement du Québec contribution:		
Opening balance	\$775 433	\$613 952
Contribution for acquisition of fixed assets	1 133 436	158 502
	<u>1 908 869</u>	<u>772 454</u>
Less:		
Transfer to revenue of an amount equivalent to the depreciation of related fixed assets ¹	107 568	54 148
Adjustment of amortization of fixed assets ¹		<u>(57 127)</u>
	<u>1 801 301</u>	<u>775 433</u>
Deferred City of Québec contribution:		
Opening balance	2 478 424	2 559 023
Less:		
Transfer to revenue of an amount equivalent to the depreciation of building ¹	80 599	80 599
	<u>2 397 825</u>	<u>2 478 424</u>
Deferred Government of Canada contribution:		
Opening balance	22 556 250	23 231 250
Less:		
Transfer to revenue of an amount equivalent to the depreciation of building ¹	675 000	675 000
	<u>21 881 250</u>	<u>22 556 250</u>
	<u>\$26 080 376</u>	<u>\$25 810 107</u>

1 Amortization of deferred contributions for the year amounts to \$863 167 (March 31, 2003: \$752 620).

14. LONG-TERM DEBT

	2004	2003
Notes payable		
Gouvernement du Québec Financing Fund, 5.468% annually (effective rate of 5.599%), repayable in semi-annual instalments of \$2 873 946, maturing April 26, 2007 ¹	\$51 560 629	\$54 373 319
Gouvernement du Québec Financing Fund, 5.385% annually (effective rate of 5.513%), repayable in semi-annual instalments, maturing October 1, 2012 ¹	2 234 590	2 394 203
Gouvernement du Québec Financing Fund, 4.306% annually (effective rate of 4.510%), repayable in semi-annual instalments, maturing October 1, 2007 ¹	1 613 923	2 044 303
	<u>55 409 142</u>	<u>58 811 825</u>
Instalments due within one year	<u>3 558 583</u>	<u>3 402 683</u>
	<u>\$51 850 559</u>	<u>\$55 409 142</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004
14. LONG-TERM DEBT (cont'd)

Repayment of the principal on the long-term debt over the next five fiscal years is as follows:

2004 – 2005	\$3 558 583
2005 – 2006	3 723 125
2006 – 2007	3 896 786
2007 – 2008	42 634 513
2008 – 2009	159 614

- 1 The Government committed to paying the Société the sums required to discharge its obligations regarding borrowings from the Financing Fund for the acquisition of fixed assets, after ensuring that the Société is unable to discharge them itself.

15. CONTRIBUTED SURPLUS

Transfer by the City of Québec, on January 1, 1994, for the nominal fee of \$1, of a building recorded at its municipal assessment on that date.

16. CASH FLOWS

Variation in non-cash elements for the Working Capital Fund:

	2004	2003
(Increase) Decrease in accounts receivable and accrued interest	\$886 732	\$(1 155 678)
Decrease (Increase) in prepaid expenses	(119 601)	186 354
Increase (Decrease) in accounts payable and accrued liabilities	(17 003)	(191 503)
Increase (Decrease) in client deposits and deferred income	51 955	92 779
	<u>\$802 083</u>	<u>\$(1 068 048)</u>

The cash and cash equivalents shown in the cash flow statement include the following amounts recorded in the balance sheet:

	2004	2003
Cash on hand	\$1 149 922	\$2 397 668
Term deposits	1 900 000	2 325 000
	<u>\$3 049 922</u>	<u>\$4 722 668</u>

The interest on the long-term debt paid by the Société during the fiscal year totalled \$3 141 524 (March 31, 2003: \$3 096 905).

17. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all departments and special funds as well as to agencies and enterprises which are controlled directly or indirectly by the Gouvernement du Québec or are subject to either joint control or significant influence by it. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

18. PENSION PLANS

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel. These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Société's contributions charged to the year-end statement amount to \$107 163 (March 31, 2003: \$96 268). The Société's liability towards this Government plan is restricted to its contributions as an employer.

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société du Centre des congrès de Québec as at March 31, 2004, the statement of revenue and expenditure and surplus and the cash flow statement for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 11, 2004

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC
(R.S.Q., c. S-14.01)

RESULTS AND SURPLUS
for the year ended August 31, 2003

	<u>2003</u>	<u>2002</u>
REVENUE		
Gouvernement du Québec subsidies (Notes 3 and 4)	\$4 382 620	\$3 796 126
Dispute settlement (Note 4)		827 604
Performance production and presentation (Note 5)	586 046	786 252
Ticket office	1 496 168	1 514 139
Rent – auditoriums	911 425	764 198
Theatrical services	1 102 126	794 960
Customer service	115 917	101 582
Parking	112 618	107 018
Interest	71 596	51 559
Other	90 064	90 920
	<u>8 868 580</u>	<u>8 834 358</u>
EXPENDITURE		
Performance production and presentation (Note 5)	693 259	896 223
Box office operations	1 354 981	1 243 168
Auditorium operations	336 406	308 499
Theatrical services	1 434 550	1 124 330
Marketing	488 283	461 088
Administrative services	692 951	633 307
Maintenance and caretaking	1 052 541	910 897
Electricity	376 036	368 293
Municipal and school taxes	539 896	497 404
Interest	636 199	679 900
Depreciation of fixed assets	1 101 511	1 106 233
	<u>8 706 613</u>	<u>8 229 342</u>
EXCESS REVENUE OVER EXPENDITURE	161 967	605 016
SURPLUS, BEGINNING OF YEAR	<u>950 362</u>	<u>345 346</u>
SURPLUS, END OF YEAR	<u><u>\$1 112 329</u></u>	<u><u>\$950 362</u></u>

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

BALANCE SHEET
as at August 31, 2003

	2003	2002
ASSETS		
Current assets		
Cash on hand	\$542 129	\$2 178 764
Term deposits (Note 6)	1 796 017	217 392
Accounts receivable	450 565	292 073
Gouvernement du Québec subsidies receivable (Note 7)	3 164 378	1 106 652
Supplies inventory	83 295	97 373
Prepaid expenses	196 226	188 599
	<u>6 232 610</u>	<u>4 080 853</u>
Cash reserved for constructions and renovations	26 886	100 719
Gouvernement du Québec subsidies receivable (Note 7)	6 997 470	9 417 303
Fixed assets (Note 8)	23 646 045	24 351 784
Deferred expenses	<u>24 982</u>	<u>33 101</u>
	<u>\$36 927 993</u>	<u>\$37 983 760</u>
LIABILITIES		
Current liabilities		
Bank loans (Note 9)	\$1 096 000	\$721 000
Deposits – ticket sales (Note 10)	705 026	831 302
Suppliers and accruals	1 141 491	988 639
Accrued interest	257 139	297 876
Gouvernement du Québec deferred subsidies (Note 11)	191 325	188 221
Revenue collected in advance	104 339	100 280
Instalments of the long-term debt (Note 12)	<u>2 886 763</u>	<u>783 222</u>
	6 382 083	3 910 540
Gouvernement du Québec deferred subsidies (Note 11)	19 056 919	19 859 433
Long-term debt (Note 12)	<u>5 755 092</u>	<u>8 641 855</u>
	<u>31 194 094</u>	<u>32 411 828</u>
EQUITY		
Contributed surplus (Note 13)	4 621 570	4 621 570
Surplus	<u>1 112 329</u>	<u>950 362</u>
	<u>5 733 899</u>	<u>5 571 932</u>
	<u>\$36 927 993</u>	<u>\$37 983 760</u>

On behalf of the Board of Directors,
Adélard Guillemette
Danyelle Bédard

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC
CASH FLOWS

for the year ended August 31, 2003

	<u>2003</u>	<u>2002</u>
OPERATING ACTIVITIES		
Excess revenue over expenditure	\$161 967	\$605 016
Adjustments for:		
Depreciation of deferred subsidies	(1 269 444)	(1 232 980)
Depreciation of fixed assets	1 101 511	1 106 233
Amortization of deferred expenses	8 119	8 561
	<u>2 153</u>	<u>486 830</u>
Change in non-cash elements of the Working Capital Fund:		
Debtors	(158 492)	17 701
Gouvernement du Québec subsidies receivable	45 815	121 941
Supplies inventory	14 078	(3 712)
Prepaid expenses	(7 627)	286 450
Deferred expenses		(19 149)
Deposits – ticket sales	(126 276)	284 395
Suppliers and accruals	102 013	293 464
Accrued interest	(40 737)	(126 565)
Gouvernement du Québec deferred subsidies	3 104	(263 107)
Revenue collected in advance	4 059	(11 841)
	<u>(161 910)</u>	<u>1 066 407</u>
Cash flows related to operating activities		
FINANCING ACTIVITIES		
Gouvernement du Québec subsidies received	783 222	781 945
Bank loans	375 000	361 000
Long-term debt		2 735 529
Repayment of long-term debt	(783 222)	(3 498 325)
	<u>375 000</u>	<u>380 149</u>
Cash flows related to financing activities		
INVESTMENT ACTIVITIES		
Cash reserved for construction and renovations	73 833	82 346
Acquisition of fixed assets	(344 933)	(304 458)
	<u>(271 100)</u>	<u>(222 112)</u>
Cash flows related to investment activities		
CHANGE IN CASH AND CASH EQUIVALENTS	(58 010)	1 224 444
OPENING CASH AND CASH EQUIVALENTS	<u>2 396 156</u>	<u>1 171 712</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 14)	<u><u>\$2 338 146</u></u>	<u><u>\$2 396 156</u></u>

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS August 31, 2003

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société du Grand Théâtre de Québec was established under the Act respecting the Société du Grand Théâtre de Québec (R.S.Q., c. S-14.01) to operate a performing arts dissemination enterprise and administer the Grand Théâtre de Québec or any other establishment the Government mandates it to manage.

These activities are designed, in particular, to provide a home for major artistic organizations, promote accessibility to the different forms of performing arts and promote Québec's artistic and cultural life.

Under section 32 of its incorporating statute, the Société funds its activities through the amounts it receives and the appropriations granted annually for this purpose by the National Assembly. The Société keeps any surplus unless the Government decides otherwise.

The Société du Grand Théâtre de Québec is recognized as a charitable organization under the Income Tax Act and, consequently, is eligible for the tax exemption available to such organizations.

2. ACCOUNTING POLICIES

The financial statements of the Société were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Subsidy recording

Appropriated subsidies are recorded as proceeds in the fiscal year in which the related charges are incurred. Subsidies receivable for fixed assets are recorded in the fiscal year in which the Société carries out the work or obtained the long-term financing entitling it to these subsidies.

Supplies inventory

Supplies on hand are valued at cost.

Fixed assets

The property and building, acquired from the Gouvernement du Québec for a nominal value, are posted at the municipal assessment value at the date of acquisition. Other acquisitions are recorded at cost, which includes materials, direct labour, professional fees and other direct expenses. Fixed assets are amortized according to the straight-line method over their estimated service life, namely:

Building	40 years
Major extensions and repairs to building	15 years
Technical stage equipment	10 years
Office furniture and equipment	5 years
Data processing equipment	3 years

Deferred expenses

The discount and long-term debt issuing expenses are deferred and amortized using the straight-line method for the duration of the debt.

Performance production and presentation expenses

Performance production and presentation expenses include only direct costs charged to productions. Indirect costs related to productions are posted to other expenditure items.

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2003

2. ACCOUNTING POLICIES (cont'd)

Cash and cash equivalents

Cash and cash equivalents are composed of cash and short-term investments that are highly liquid and easily convertible into a known amount of cash whose value is unlikely to change significantly.

Pension plan

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2003	2002
Operating subsidy *	\$2 485 096	\$1 891 807
Interest on long-term debt	628 080	671 339
Amortization of deferred		
Gouvernement du Québec subsidies **	1 269 444	1 232 980
	<u>\$4 382 620</u>	<u>\$3 796 126</u>

* The operating subsidy reflects the fact that the Société must pay its property taxes, which total \$267 974 (2002: \$231 164) and, under the building's act of transfer, it must house the Conservatoire de musique de Québec free of charge, which represents operating expenses and property taxes of \$479 615 (2002: \$468 394).

** This amount includes \$8 119 (2002: \$8 561) for the amortization of deferred expenses and \$159 813 (2002: \$118 187) for the financing of current charges related to building maintenance. These charges break down as follows:

	2003	2002
Maintenance and caretaking	\$150 190	\$81 651
Theatrical services	9 623	36 536

4. GAIN ON DISPUTE SETTLEMENT

In keeping with a Commission municipale de Québec decision, handed down in the fiscal year ended August 31, 2002, the Société's municipal and school taxation method was changed retroactively to 2001. As a result, the Gouvernement du Québec subsidy was reviewed and decreased for the fiscal year ended August 31, 2002.

5. NON-MONETARY TRANSACTIONS

The Société exchanges goods and services with certain suppliers. These non-monetary transactions are entered in the Société's year-end statement at the fair value of the goods and services exchanged, which increased the Société's revenue and expenditure for performance production and presentation for an amount of \$85 766 (2002: \$99 098).

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2003**6. TERM DEPOSITS**

Term deposits bear interest at a rate varying from 2.25% to 3.15% (2002: 2.65% to 3.08%).

7. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

Gouvernement du Québec subsidies receivable presented as short-term correspond to the interest charged on the long-term debt, the interest paid and not reimbursed on the bank loans and to reimbursement of capital on the long-term debt in the next fiscal year.

Those presented as long-term represent total Gouvernement du Québec commitments related to fixed assets and their maintenance minus reimbursement of capital on the long-term debt made in the past or to be made in the next fiscal year.

8. FIXED ASSETS

	2003			2002
	Cost or stated value	Accumulated depreciation	Net	Net
Land	\$4 621 570		\$4 621 570	\$4 621 570
Building	23 901 091	\$7 917 236	15 983 855	16 581 382
Major extensions and repairs to the building	4 531 288	2 875 560	1 655 728	1 743 784
Technical stage equipment	4 995 903	3 695 072	1 300 831	1 331 204
Office furniture and equipment	289 609	232 737	56 872	55 493
Data processing equipment	369 437	342 248	27 189	18 351
	<u>\$38 708 898</u>	<u>\$15 062 853</u>	<u>\$23 646 045</u>	<u>\$24 351 784</u>

The cost of additions and major repairs to the building includes an amount of \$126 179 which will begin to be amortized when the work has been completed.

9. BANK BORROWINGS

The Société has a credit line with a financial institution for its operations that is renewable annually on November 30. The amounts borrowed are authorized by the Gouvernement du Québec up to \$800 000 and bear interest at the prime rate. At August 31, 2003, the Société had not used this credit line.

The Gouvernement du Québec authorized the Société to borrow the following amounts for fixed assets maintenance:

	2003	2002
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$777 100 bearing interest at the prime rate, maturing on November 30, 2003.	\$619 000	\$554 000
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$870 500 bearing interest at the prime rate, maturing on November 30, 2003.	385 000	167 000
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$857 200 bearing interest at the prime rate, maturing on November 30, 2003.	<u>92 000</u>	
	<u>\$1 096 000</u>	<u>\$721 000</u>

The maximum amount authorized by the Gouvernement du Québec for bank borrowings for assets maintenance is \$2 504 800 (2002: \$1 647 600).

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2003
10. DEPOSITS – TICKET SALES

During the year, in its capacity as co-manager of the Billetech ticket office, the Société sold tickets to various events. Most of this amount belongs to independent producers. This item shows the amount paid by customers for shows which had not yet been presented as at August 31, 2003.

11. GOUVERNEMENT DU QUÉBEC DEFERRED SUBSIDIES

Deferred subsidies are related to fixed assets and their maintenance and property taxes. Changes in the balance for the fiscal year are as follows:

	2003	2002
Opening balance	\$20 047 654	\$21 182 433
Government commitments regarding fixed assets and their maintenance	466 930	342 159
Long-term debt issuing expenses		19 149
Commitments related to property taxes	191 325	188 221
Amount recorded as subsidies for property taxes	(188 221)	(451 328)
Amortization of deferred subsidies	(1 269 444)	(1 232 980)
	<u>19 248 244</u>	<u>20 047 654</u>
Government commitments designed to cover costs for the next fiscal year	(191 325)	(188 221)
	<u>\$19 056 919</u>	<u>\$19 859 433</u>

12. LONG-TERM DEBT

	2003	2002
Borrowings from the Financing Fund of the Gouvernement du Québec		
Fixed rate of 9.50%, repayable in annual instalments of \$216 633 until April 1, 2004 and a final instalment of \$1 299 800 on April 1, 2005	\$1 516 434	\$1 733 067
Fixed rate of 5.62%, repayable in annual instalments of \$210 512 until June 1, 2003 and a final instalment of \$2 314 052 on December 1, 2003	2 314 052	2 524 564
Fixed rate of 5.673%, repayable in annual instalments of \$173 708 until April 11, 2005 and a final instalment of \$1 910 791 on April 11, 2006	2 258 209	2 431 917
Fixed rate of 6,0364%, repayable in annual instalments of \$182 369 until December 1, 2009 and a final instalment of \$1 276 580 on December 1, 2010	2 553 160	2 735 529
	<u>8 641 855</u>	<u>9 425 077</u>
Instalments due within one year	<u>2 886 763</u>	<u>783 222</u>
	<u>\$5 755 092</u>	<u>\$8 641 855</u>

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2003

12. LONG-TERM DEBT (cont'd)

The Société receives subsidies from the Gouvernement du Québec to cover the long-term debt service.

Repayment of principal on the long-term debt over the next five fiscal years is as follows:

2004	\$2 886 763
2005	1 655 877
2006	2 093 160
2007	182 369
2008	182 369

13. CONTRIBUTED SURPLUS

The contributed surplus amount corresponds to the property's municipal assessment on the date of acquisition.

14. CASH FLOWS

The cash and cash equivalents shown in the cash flow statement include the following amounts recorded in the balance sheet:

	2003	2002
Cash on hand	\$542 129	\$2 178 764
Term deposit	1 796 017	217 392
	<u>\$2 338 146</u>	<u>\$2 396 156</u>

Interest on the long-term debt paid by the Société during the fiscal year totalled \$668 816 (2002: \$797 906).

During the fiscal year, fixed assets were acquired for a total cost of \$395 772 (2002: \$297 857), including fixed assets totalling \$81 336 (2002: \$30 497) included in accounts payable as at August 31, 2003. Outpayments totalling \$344 933 (2002: \$304 458) were made for the purchase of fixed assets.

15. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or are subject to either joint control or significant influence by it. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

16. PENSION PLANS

The Société contributes to three pension plans in which certain staff members participate. Two of them are defined-contribution pension plans and include guaranteed payments upon retirement, loss of employment and death and the other is the interenterprise defined-benefit plan Pension Plan of Management Personnel (PPMP), which includes guarantees on retirement and death.

The Société's contributions charged to the year-end statement amount to \$126 110 (2002: \$119 027). The Société had decided to use part of the surplus assets, namely \$35 875 (2002: \$32 000) during the fiscal year. The Société's liability towards these plans is restricted to its contributions as an employer.

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2003

17. FAIR VALUE OF FINANCIAL INSTRUMENTS**Gouvernement du Québec subsidy receivable**

At August 31, 2003, the fair value of Gouvernement du Québec subsidies receivable of \$10 161 848 was \$10 821 248.

Long-term debt

At August 31, 2003, the fair value of the long-term debt of \$8 641 855 was \$9 301 255, given the capitalization of cash flows at the market rate for securities of whose similar term and interest rate is similar.

Other financial instruments

The book values of short-term assets and liabilities as the cash reserved for construction and redevelopment are representative of their fair value, given that they mature in the short term.

18. COMPARATIVE FIGURES

Certain 2002 figures were reclassified for consistency with the presentation adopted in 2003.

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société du Grand Théâtre de Québec were drawn up by the management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Francine Grégoire
Director General

Québec, November 12, 2003

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société du Grand Théâtre de Québec as at August 31, 2003 and the statements of results and surplus and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at August 31, 2003 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis CA
Acting Auditor General of Québec

Québec, November 12, 2003

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL
(R.S.Q., c. S-14.1)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Gouvernement du Québec operating subsidy (Note 3)	\$30 575 308	\$22 705 122
Rental of premises for events	5 258 352	4 573 324
Royalties (Note 4)	2 605 412	2 381 076
Ancillary operations (Note 5)	4 284 713	3 960 628
Other	<u>502 207</u>	<u>225 806</u>
	<u>43 225 992</u>	<u>33 845 956</u>
EXPENDITURE		
Operating and administrative expenses (Note 6)	26 535 181	23 163 768
Hosting of events (Note 7)	3 529 741	5 190 117
Net financial expenses (Note 8)	<u>11 734 915</u>	<u>5 451 269</u>
	<u>41 799 837</u>	<u>33 805 154</u>
EXCESS REVENUE OVER EXPENDITURE BEFORE THE FOLLOWING ITEMS:	1 426 155	40 802
Gouvernement du Québec subsidy for fixed assets and deferred expenses (Note 3)	9 407 786	5 601 129
Amortization of deferred contributions	1 211 782	1 128 135
Depreciation of fixed assets	(10 529 820)	(6 703 980)
Amortization of deferred expenses	(81 565)	(25 284)
Gain (loss) on disposal of fixed assets	(7 777)	26 205
Income related to asset slated for sale	<u>432 000</u>	<u>504 000</u>
EXCESS REVENUE OVER EXPENDITURE	1 858 561	571 007
DEFICIT, BEGINNING OF YEAR	<u>(411 120)</u>	<u>(982 127)</u>
EXCESS (DEFICIT), END OF YEAR	<u><u>\$1 447 441</u></u>	<u><u>\$(411 120)</u></u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉALBALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$4 957 186	\$1 997 787
Accounts receivable	1 585 282	3 390 836
Gouvernement du Québec subsidy to be recovered	7 459 260	701 095
Prepaid expenses	<u>2 311 955</u>	<u>1 544 592</u>
	16 313 683	7 634 310
Gouvernement du Québec subsidy to be recovered	20 820 952	16 727 850
Fixed assets (Note 9)	304 742 029	296 562 814
Asset slated for sale (Note 10)	15 756 215	15 756 215
Deferred expenses, at amortized cost	<u>1 305 214</u>	<u>113 778</u>
	<u>\$358 938 093</u>	<u>\$336 794 967</u>
LIABILITIES		
Current liabilities		
Short-term borrowings (Note 11)	\$127 000 000	\$275 000 000
Accounts payable and accruals	14 128 883	9 170 633
Customer deposits	1 832 488	1 921 701
Instalments on long-term debt (Note 12)	<u>4 992 376</u>	<u>701 095</u>
	147 953 747	286 793 429
Deferred revenue	40 292	67 153
Long-term debt (Note 12)	189 519 374	31 424 057
Deferred contributions (Note 14)	<u>19 977 239</u>	<u>18 921 448</u>
	357 490 652	337 206 087
SURPLUS (DEFICIT)	<u>1 447 441</u>	<u>(411 120)</u>
	<u>\$358 938 093</u>	<u>\$336 794 967</u>
COMMITMENTS (Note 17)		
On behalf of the Board of Directors, John H. Dinsmore Paul St-Jacques		

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL**CASH FLOWS**

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Receipts - Government, clients	\$46 198 424	\$40 697 565
Disbursements - suppliers and staff members	(29 640 780)	(23 864 363)
Interest earned	242 086	82 601
Interest paid	<u>(9 510 117)</u>	<u>(5 533 870)</u>
Cash flows related to operating activities	<u>7 289 613</u>	<u>11 381 933</u>
INVESTMENT ACTIVITIES		
Purchase of fixed assets	(18 717 218)	(227 025 275)
Proceeds from the sale of fixed assets	<u>406</u>	<u>26 205</u>
Cash flows related to investment activities	<u>(18 716 812)</u>	<u>(226 999 070)</u>
FINANCING ACTIVITIES		
Repayment of long-term debt	(1 023 402)	(695 156)
Net proceeds for short-term borrowing	(148 000 000)	250 500 000
Proceeds from long-term debt	<u>163 410 000</u>	<u>(32 500 000)</u>
Cash flows related to financing activities	<u>14 386 598</u>	<u>217 304 844</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2 959 399	1 687 707
OPENING CASH POSITION	<u>1 997 787</u>	<u>310 080</u>
CLOSING CASH POSITION	<u><u>\$4 957 186</u></u>	<u><u>\$1 997 787</u></u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉALNOTES TO FINANCIAL STATEMENTS
March 31, 2004**1. CONSTITUTION AND PURPOSE**

A legal person within the meaning of the Civil Code, the Société du Palais des congrès de Montréal was established under a special act (R.S.Q., c. S-14.1) for the purpose of:

- managing and operating the Palais des congrès de Montréal;
- preparing development or operational plans for the Palais des congrès;
- carrying on, promoting and administering, such commercial and other activities as may foster the development of the Palais des congrès.

Under section 3 of the Act establishing it, the Société du Palais des congrès de Montréal is not subject to income tax.

2. ACCOUNTING POLICIES

The Société's financial statements were prepared by management on the accrual basis in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Gouvernement du Québec subsidy to be recovered

The subsidy to be recovered from the Government corresponds to the difference between the interest expenses accrued on borrowings for the acquisition of fixed assets plus the depreciation on those assets and the deferred expenses financed by the borrowings, and the total subsidies received from the Gouvernement du Québec to pay back those borrowings.

Fixed assets

Fixed assets are recorded at cost.

Fixed assets are depreciated over their estimated useful life according to the straight-line method as follows:

Building	40 years
Furniture and equipment	10 years
Data processing equipment	5 years
Leasehold improvements	Remaining term of the lease

Asset slated for sale

The asset slated for sale is assessed at cost or realization value and the fair value of sales fees whichever is less.

Deferred expenses

Issue and management expenses on borrowings from the Financing Fund of the Gouvernement du Québec are deferred and amortized according to the straight-line method over the term of the borrowings.

Deferred revenue

Lease inducements paid by the lessor to the Société under a long-term lease for office space are amortized according to the sum-of-the-years'-digits method over the term of the lease (16 years). The amortization is applied against the rent.

Deferred contributions

Contributions received for the acquisition of depreciable fixed assets and those received in the form of depreciable fixed assets are deferred and recorded in the statement of revenue and expenditure as the assets to which they pertain are depreciated.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

2. ACCOUNTING POLICIES (cont'd)
Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Gouvernement du Québec subsidy

The Société records and distributes the Gouvernement du Québec subsidy as follows:

• *Operating subsidy*

Contribution for the payment of interest on the long-term debt contracted to finance depreciable fixed assets.
Contribution for other expenses incurred during the year.

• *Subsidy for fixed assets and deferred expenses*

Contribution for the repayment of the long-term debt contracted to finance fixed assets and the related deferred expenses.

• *Deferred contributions*

Contribution for the acquisition of depreciable fixed assets.

3. GOUVERNEMENT DU QUÉBEC SUBSIDY

	2004	2003
Operating subsidy:		
Subsidy for the year	\$31 399 400	\$30 513 900
Deferred contributions - Contribution for the acquisition of depreciable fixed assets	(2 267 574)	(2 575 951)
Receipt - Gouvernement du Québec subsidy owing	<u>(1 023 402)</u>	<u>(5 232 827)</u>
	28 108 424	22 705 122
Contribution to be recovered for the payment of interest on the long-term debt contracted to finance depreciable fixed assets	<u>2 466 884</u>	
Total operating subsidy	30 575 308	22 705 122
Subsidy for fixed assets and deferred expenses	<u>9 407 786</u>	<u>5 601 129</u>
	<u>\$39 983 094</u>	<u>\$28 306 251</u>

4. ROYALTIES

	2004	2003
Ticket sales	\$479 707	\$306 148
Food services	1 667 908	1 457 303
Audiovisual services and simultaneous translation	388 031	604 780
Other	<u>69 766</u>	<u>12 845</u>
	<u>\$2 605 412</u>	<u>\$2 381 076</u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

5. ANCILLARY OPERATIONS

	2004	2003
Parking	\$764 698	\$770 193
Furnishings	1 318 790	1 177 175
Audiovisual services	594 087	571 409
Cloakroom attendants	164 523	142 573
Dynamic signs	350	
Crowd managers	29 575	36 600
Plumbing and electricity	1 160 342	1 039 048
Security	77 122	100 778
Other	175 226	122 852
	<u>\$4 284 713</u>	<u>\$3 960 628</u>

6. OPERATING AND ADMINISTRATIVE EXPENSES

	2004	2003
Salaries and fringe benefits	\$6 892 315	\$6 750 595
Taxes	8 830 462	5 757 085
Insurance and permits	428 575	288 735
Electricity and heating	2 259 078	2 435 882
Caretaking	750 767	684 858
Cleaning services	1 105 847	881 139
Specialized maintenance services	914 066	737 240
Maintenance and repairs	1 838 785	1 961 398
Rent	608 834	597 951
Advertising and promotion	1 449 800	1 781 882
Professional and administrative services	1 199 239	893 956
Travelling expenses	136 727	119 537
Doubtful accounts	35 277	227 293
Job training	85 409	46 217
	<u>\$26 535 181</u>	<u>\$23 163 768</u>

7. HOSTING OF EVENTS - EXPENSES

	2004	2003
Salaries - event staff :		
Customer service	\$973 580	\$1 670 254
Parking lot attendants	99 555	87 777
Cloakroom attendants	139 475	109 660
Audiovisual technicians	300 208	227 585
Food services	27 219	24 096
Furnishings	1 408 403	1 923 479
Audiovisual services	126 357	198 146
Plumbing and electricity	263 124	332 979
Dynamic signs	32 691	26 786
Security	65 075	69 009
Other expenses	94 054	520 346
	<u>\$3 529 741</u>	<u>\$5 190 117</u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

8. NET FINANCIAL EXPENSES

	2004	2003
Interest on long-term debt	\$5 144 763	\$1 865 794
Other interest and bank charges	6 832 238	3 668 076
	<u>11 977 001</u>	<u>5 533 870</u>
Interest on bank balance and term deposits	242 086	82 601
	<u>\$11 734 915</u>	<u>\$5 451 269</u>

9. FIXED ASSETS

	2004		2003	
	Cost	Accumulated depreciation	Net	Net
Land	\$23 242 481		\$23 242 481	\$22 016 390
Building	333 588 756	\$65 172 022	268 416 734	261 857 466
Furniture and equipment	22 373 247	10 134 924	12 238 323	11 596 446
Leasehold improvements	481 717	419 427	62 290	93 501
Data processing equipment	4 538 761	3 756 560	782 201	999 011
	<u>\$384 224 962</u>	<u>\$79 482 933</u>	<u>\$304 742 029</u>	<u>\$296 562 814</u>

On September 30, 1998, the Société received authorization from the Gouvernement du Québec to expand the Palais des congrès in the quadrilateral Saint-Urbain, Bleury, Viger and Saint-Antoine. The mandate for expansion work to the Palais des congrès de Montréal was entrusted to the Société immobilière du Québec. It will cede to the Société du Palais des congrès de Montréal all work completed for an amount equivalent to the cost of this work. The total estimated project cost is \$257 800 000. The Société's disbursed costs for this project at March 31, 2004 total \$254 230 411 and break down as follows:

	2004
Land	\$20 257 430
Building	228 965 134
Equipment	<u>5 007 847</u>
	<u>\$254 230 411</u>

In the next fiscal year, the Société will acquire equipments in the amount of approximately \$4 609 892.

10. ASSET SLATED FOR SALE

In the coming fiscal year, the Société will transfer the parking lot built as part of the Palais des congrès de Montréal expansion project for a total consideration of \$15 845 054 plus the applicable taxes and any other adjustment determined on the date of sale.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

11. TEMPORARY BORROWINGS**From the Financing Fund of the Gouvernement du Québec**

	<u>2004</u>	<u>2003</u>
Note payable		
2.10286% annually (effective rate of 2.15286%), maturing June 30, 2004	\$127 000 000	
2.94073% annually (effective rate of 2.99073%), maturing June 6, 2003		\$7 000 000
2.87204% annually (effective rate of 2.92204%), maturing April 15, 2003		55 500 000
3.17994% annually (effective rate of 3.22994%), maturing June 6, 2003		5 000 000
2.90605% annually (effective rate of 2.95605%), maturing June 6, 2003		<u>207 500 000</u>
	<u>\$127 000 000</u>	<u>\$275 000 000</u>

The Société is authorized to contract short-term borrowings of up to \$310 500 000 until September 30, 2004 and then \$5 000 000 from that date to March 31, 2007 from financial institutions or the Minister of Finance, as manager of the Financing Fund, to contract these borrowing at variable or fixed rates, to make these financial commitments, to conclude the agreements needed for their realization and to issue any debt instruments.

From financial institutions

The Société had authorized credit, renewable annually, on September 30, 2004, from a financial institution. As at March 31, 2004, the maximum, amount that the Société could withdraw was \$500 000. Amounts used bear interest at the prime rate.

12. LONG-TERM DEBT**From the Financing Fund of the Gouvernement du Québec**

	<u>2004</u>	<u>2003</u>
Note payable		
5.719% annually, repayable in quarterly instalments of \$1 264 225, \$29 067 186 maturing October 1, 2007	\$31 424 057	\$32 125 152
5.234% annually, repayable in quarterly instalments of \$1 172 832, \$22 505 336 maturing September 30, 2015	32 177 693	
5.159% annually, repayable in quarterly instalments of \$4 683 303, \$97 882 146 maturing October 1, 2013	<u>130 910 000</u>	
	194 511 750	32 125 152
Instalments due within one year	<u>4 992 376</u>	<u>701 095</u>
	<u>\$189 519 374</u>	<u>\$31 424 057</u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

12. LONG-TERM DEBT (cont'd)

Principal payments on the long-term debt to be paid for the next five fiscal years are as follows:

2005	\$4 992 376
2006	4 325 036
2007	4 556 100
2008	4 799 529
2009	5 055 985

To ensure repayment of the principal and interest on borrowings contracted under the borrowing plan set up by the Société, the Minister for Regional Development and Tourism is authorized, after having ensured that the Société is unable to meet its obligations under one of these borrowing, to pay the amounts required to make up for this inability.

13. FINANCIAL INSTRUMENTS
Fair value of financial instruments
Long-term debt

At March 31, 2004, the fair value of the long-term debt of \$194 511 750 (2003: \$32 125 152) was \$207 040 250 (2003: \$33 559 545), given the capitalization of cash flows at market rates for securities whose maturity date and interest rate is similar.

Short-term borrowings

The fair value of short-term borrowings at March 31, 2004 in the amount of \$127 000 000 corresponds to the securities' book value given their short renewal period.

Other assets and liabilities

The fair value of cash, payables, receivables, expenses incurred and customer deposits equal their book value given that they mature in the near future.

14. DEFERRED CONTRIBUTIONS

	<u>2004</u>	<u>2003</u>
Contributions for depreciable fixed assets:		
Government of Canada	\$24 000 000	\$24 000 000
Gouvernement du Québec	11 822 135	9 554 562
Hydro-Québec	237 838	237 838
Lessor	1 177 906	1 177 906
Concession holder	299 410	299 410
	<u>37 537 289</u>	<u>35 269 716</u>
Accumulated depreciation	<u>17 560 050</u>	<u>16 348 268</u>
	<u>\$19 977 239</u>	<u>\$18 921 448</u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

15. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by the Gouvernement du Québec. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

16. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These interenterprise plans are defined-benefit plans and include guaranteed payments upon retirement and death.

The Société's contributions charged to the year-end statement amount to \$224 090 (2003: \$217 343). The Société's liability towards these Government plans is restricted to its contributions as an employer.

17. COMMITMENTS

The Société is committed to a long-term lease for office space expiring in 2007. This lease includes two five-year renewal options. The estimated minimum lease payments, less the amortization of deferred revenue (lease inducements).

The Société is committed under long-term contracts expiring on various dates up to March 31, 2012 for guard, maintenance and specialized maintenance services.

The minimum future payments under these commitments break down as follows:

	Rent	Other
2005	\$395 354	\$3 415 729
2006	402 069	1 945 560
2007	408 785	1 344 416
2008	69 250	247 800
2009		247 800
2010 and thereafter		743 400
	<u>\$1 275 458</u>	<u>\$7 944 705</u>

18. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL**MANAGEMENT'S REPORT**

The financial statements of the Société du Palais des congrès de Montréal were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with management to discuss any element matter related to the audit.

Paul Saint-Jacques
President and Chief Executive Officer

André Saucier, CGA
Director, Financial and Administration

Montréal, June 1, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société du Palais des congrès de Montréal as at March 31, 2004 and the statements of revenue and expenditure and surplus and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 1, 2004

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR
(R.S.Q., c. S-16.001)

REVENUE AND EXPENDITURE AND EQUITY
for the year ended March 31, 2004

	2004	2003
REVENUE (Note 3)	<u>\$5 785 425</u>	<u>\$4 725 490</u>
EXPENDITURE		
Operating expenses by category (Note 4)		
Salaries and fringe benefits	929 236	882 810
Materials and supplies	675 743	664 357
Maintenance and repairs	596 664	549 189
Municipal and school taxes	181 568	181 256
Professional, administrative and other services	179 329	124 745
Caretaking	105 650	102 632
Advertising and promotion	73 636	78 789
Travelling and communications	51 698	55 705
Doubtful accounts	748	200
Other	60 000	55 000
	<u>2 854 272</u>	<u>2 694 683</u>
Depreciation of fixed assets	<u>1 877 187</u>	<u>1 818 128</u>
	4 731 459	4 512 811
Other expenses		
Financial expenses	1 014 131	976 998
Partial financing of Bécancour's water supply and sewer systems (Note 9)	46 447	46 725
Amortization of discount on long-term debt		<u>162</u>
	<u>5 792 037</u>	<u>5 536 696</u>
EXCESS EXPENDITURE OVER REVENUE	6 612	811 206
EQUITY, BEGINNING OF YEAR	<u>12 959 369</u>	<u>13 770 575</u>
EQUITY, END OF YEAR	<u>\$12 952 757</u>	<u>\$12 959 369</u>

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

BALANCE SHEET
as at March 31, 2004

	2004	2003
ASSETS		
Current assets		
Cash on hand	\$444 590	
Term deposits, at cost	1 000 000	
Accounts receivable (Note 5)	363 550	\$670 528
Spare parts inventory	197 952	207 690
Prepaid expenses	186 219	197 653
	<u>2 192 311</u>	<u>1 075 871</u>
Land for sale	5 437 565	5 517 954
Fixed assets (Note 6)	<u>25 365 423</u>	<u>26 603 743</u>
	<u>\$32 995 299</u>	<u>\$33 197 568</u>
LIABILITIES		
Current liabilities		
Bank loan (Note 7)		\$74 795
Accounts payable and accruals	\$299 711	282 688
Accrued interest on long-term debt	468 165	466 276
Holdback on contracts	5 142	67 910
Deferred revenue	231 281	282 975
	<u>1 004 299</u>	<u>1 174 644</u>
Provision for sick leave (Note 12)	89 125	83 218
Deferred Government assistance – amortized cost	949 118	980 337
Long-term debt (Note 8)	<u>18 000 000</u>	<u>18 000 000</u>
	20 042 542	20 238 199
EQUITY	<u>12 952 757</u>	<u>12 959 369</u>
	<u>\$32 995 299</u>	<u>\$33 197 568</u>
COMMITMENTS (Note 9)		

On behalf of the Board of Directors,
 Henri Boudreau, President
 Jean Rousseau, Vice-President

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR**CASH FLOWS**

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Excess expenditure over revenue	\$(6 612)	\$(811 206)
Adjustments for:		
Amortization of Government assistance	(31 219)	(12 492)
Depreciation of fixed assets	1 877 187	1 818 128
Amortization of discount on long-term debt		162
Gain on sale of land	(195 346)	
Loss on disposal of fixed assets	513	695
	<u>1 644 523</u>	<u>995 287</u>
Changes in assets and liabilities related to operations (Note 10)	<u>577 010</u>	<u>(347 353)</u>
Cash flows related to operating activities	<u>2 221 533</u>	<u>647 934</u>
INVESTMENT ACTIVITIES		
Government assistance		749 079
Acquisition of fixed assets	(702 228)	(2 056 386)
Proceeds from disposal of fixed assets	<u>80</u>	<u></u>
Cash flows related to investment activities	<u>(702 148)</u>	<u>(1 307 307)</u>
FINANCING ACTIVITIES		
Cash flows related to financing activities:		
Long-term borrowings	<u></u>	<u>13 343</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>1 519 385</u>	<u>(646 030)</u>
CASH AND CASH EQUIVALENTS (DEFICIENCY) BEGINNING OF YEAR	<u>(74 795)</u>	<u>571 235</u>
CASH AND CASH EQUIVALENTS (DEFICIENCY) END OF YEAR (Note 10)	<u>\$1 444 590</u>	<u>\$(74 795)</u>

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société du parc industriel et portuaire de Bécancour was established under a special act (R.S.Q., c. S-16.001) for the purpose of fostering the economic development of Québec by developing and operating, with self-financing as an objective, an industrial park with harbour facilities within the territory of the town of Bécancour. Under federal and provincial tax legislation, the Société is not subject to income tax.

2. ACCOUNTING POLICIES

The Société's financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Cash and cash equivalents

Cash and cash equivalents comprise petty cash, bank balances less bank loan and investments in money market instruments less the bank borrowing.

Spare parts inventory

The spare parts inventory is valued at the lower of cost, determined according to the first-in, first-out method, and replacement value.

Land for sale

Land for sale is recorded at the lower of average acquisition cost and net realizable value. Municipal and school taxes, along with any interest charges related to the purchase of this land, are charged to operations.

Fixed assets

Fixed assets are recorded at cost. They are depreciated on a straight-line basis at the following rates:

Buildings, storage areas and parking space	2 1/2% to 5%
Harbour facilities	2 1/2% to 20%
Vehicles	20%
Equipment	6 2/3% and 10%
Water supply and sewer systems	3 1/3% to 5%
Industrial water plant and distribution system	2 1/2% and 5%
Roads and streets	4% and 5%
Rail network	2 1/2%
Office furniture and equipment	10% and 20%

Deferred Government assistance

Subsidies for the acquisition of fixed assets are recorded as deferred Government assistance and transferred to results using the same method and amortization rates as subsidized fixed assets.

Pension plan

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

3. REVENUE

	2004	2003
Operating revenue:		
Port revenue	\$2 568 182	\$2 361 773
Industrial water service	1 101 102	1 070 477
Recovery of certain maintenance costs from the town of Bécancour	850 000	850 000
Building rental	447 821	399 700
Interest on cash on hand and term deposits	19 626	9 303
Public services related to the sale of land	576 510	
Loss on disposal of fixed assets	(513)	(695)
Amortization of Government assistance	31 219	12 492
Other (Losses) revenue	(3 868)	22 440
	<u>5 590 079</u>	<u>4 725 490</u>
Sale of land:		
Proceeds from sale of land	275 735	
Cost of land sold	80 389	
	<u>195 346</u>	
	<u>\$5 785 425</u>	<u>\$4 725 490</u>

**4. OPERATING EXPENSES BY SECTOR OF ACTIVITY,
BEFORE DEPRECIATION OF FIXED ASSETS**

	2004	2003
General administration	\$1 080 991	\$980 303
Industrial water plant and distribution system	714 705	666 354
Buildings	367 876	320 338
Transportation network	249 814	238 312
Harbour facilities	213 106	261 832
Vehicles and equipment	139 146	140 729
Water supply and sewer systems	88 634	86 815
	<u>\$2 854 272</u>	<u>\$2 694 683</u>

5. ACCOUNTS RECEIVABLE

	2004	2003
Clients	\$362 179	\$420 191
Government assistance		249 079
Other	1 371	1 258
	<u>\$363 550</u>	<u>\$670 528</u>

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

6. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net
Land	\$28 069		\$28 069
Buildings, storage areas and parking space	3 354 660	\$2 138 333	1 309 879
Harbour facilities	39 292 277	22 515 955	17 337 855
Vehicles and equipment	690 528	625 145	72 445
Water supply and sewer systems	5 857 620	4 819 368	1 161 209
Industrial water plant and distribution system	11 666 170	8 491 007	3 524 602
Transportation network:			
Roads and streets	9 746 529	7 819 193	2 003 174
Rail network	1 472 563	381 096	1 094 739
Office furniture and equipment	265 680	218 576	71 771
	<u>\$72 374 096</u>	<u>\$47 008 673</u>	<u>\$26 603 743</u>

7. BANK BORROWING

At March 31, 2004, the Société had a guaranteed bank credit line of \$1 500 000 that is renewable annually on October 31. The amounts used bear interest at the prime rate.

8. LONG-TERM DEBT

	2004	2003
Term note from the Financing Fund of the Gouvernement du Québec, effective rate of 4.951%, without terms and conditions for reimbursement for capital, maturing April 2005	\$8 000 000	\$8 000 000
Term note from the Financing Fund of the Gouvernement du Québec, effective rate of 6.186%, without terms and conditions for reimbursement for capital, maturing October 2012	<u>10 000 000</u>	<u>10 000 000</u>
	<u>\$18 000 000</u>	<u>\$18 000 000</u>

9. COMMITMENTS
Partial financing of Bécancour's water supply and sewer systems

Under an agreement with the town of Bécancour, ratified by the Government on April 11, 1973, the Société is authorized to participate in the financing, until 2011, of the water supply and sewer systems servicing the industrial park and part of the town.

The Société is committed to paying the annual debt service on one borrowing by the town of Bécancour. As at March 31, 2004, this commitment was \$387 000 (2003: \$434 000).

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

9. COMMITMENTS (cont'd)
Partial financing of Bécancour's water supply and sewer systems (cont'd)

Changes in bonded borrowings related to this commitment during the year are as follows:

Initial issues	As at March 31, 2003	Payments during the year			As at March 31, 2004
		Amount	Interest	Principal	
\$672 000	\$347 200	\$46 447	\$15 647	\$30 800	\$316 400

The interest rates related to this issue vary from 3.35% to 5.0% until July 3, 2007.

10. CASH FLOWS

The additional cash flow information is as follows:

	2004	2003
Changes in assets and liabilities related to operations		
Accounts receivable	\$306 978	\$249 189
Spare parts inventory	9 738	13 804
Prepaid expenses	11 434	(100 975)
Land for sale	275 735	
Accounts payable and accruals	17 023	(140 682)
Accrued interest on the long-term debt	1 889	(1 993)
Deferred revenue	(51 694)	(370 479)
Provision for sick leave	5 907	3 783
	<u>\$577 010</u>	<u>\$(347 353)</u>
Cash and cash equivalent		
Cash on hand	\$444 590	
Term deposits	1 000 000	
Bank loan		\$(74 795)
	<u>\$1 444 590</u>	<u>\$(74 795)</u>
Additional information		
Interest paid on long-term debt	<u>\$993 880</u>	<u>\$954 936</u>

11. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, measured at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

12. FUTURE FRINGE BENEFITS
Pension plan

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP). This is an interenterprise defined-benefit plan and includes guaranteed payments upon retirement and death.

The Société's contributions charged to the year-end statement amount to \$27 100 (2003: \$25 203). The Société's liability towards this Government plan is restricted to its contributions as an employer.

Provision for sick leave

	<u>2004</u>	<u>2003</u>
Opening balance	\$83 218	\$79 435
Charge for the year	14 758	14 140
Benefits paid during the year	<u>(8 851)</u>	<u>(10 357)</u>
Closing balance	<u>\$89 125</u>	<u>\$83 218</u>

13. FINANCIAL INSTRUMENTS

The fair value of the elements of assets and short-term liabilities is equal to their book value given that they mature in the near future.

The following chart shows the book value and the fair value of the Société's long-term financial instruments:

	<u>2004</u>	<u>2003</u>
Long-term debt:		
Book value	\$18 000 000	\$18 000 000
Fair value	19 777 481	19 074 547

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR**MANAGEMENT'S REPORT**

The financial statements of the Société du parc industriel et portuaire de Bécancour were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with generally accepted accounting principles in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Danielle Hébert, CA
Director of Finance

Jean-Pierre Nepveu
President and Chief Executive Officer

Bécancour, May 7, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société du parc industriel et portuaire de Bécancour as at March 31, 2004 and the statements of revenue and expenditure and equity and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 7, 2004

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC
(R.S.Q., c. S-17)

CONSOLIDATED STATEMENT OF OPERATIONS
year ended December 31, 2003, with comparative figures for 2002
(in thousands of dollars)

	2003	2002
REVENUE (Note 3)	985 721	969 689
OPERATING EXPENSES:		
Cost of goods sold and services	903 919	819 564
Selling, general and administrative expenses	181 881	156 785
Amortization and depletion	65 316	58 317
Loss in value of goodwill (Note 10)	13 337	1 706
	1 164 453	1 036 372
OPERATING LOSS OF SUBSIDIARIES AND JOINT VENTURES	(178 732)	(66 683)
Share of (loss) earnings in significantly influenced companies	(82 445)	703
Dividend income and interest on long-term investments	9 582	8 451
Operating loss before the following items	(251 595)	(57 529)
Impairment of property, plant and equipment and other assets (Note 4)	(163 958)	(180 310)
Provision for loss on other long-term investments (Note 5)	(107 805)	(78 719)
Net unrealized loss on venture capital investments	(93 344)	(63 028)
Net gain on disposal of businesses and long-term investments	38 017	219 577
Operating loss	(578 685)	(160 009)
Financial income (expenses) (Note 6)	51 172	(17 084)
Other income	16 785	5 454
NET LOSS FOR THE YEAR (Note 3)	(510 728)	(171 639)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF DEFICIT
year ended December 31, 2003, with comparative figures for 2002
(in thousands of dollars)

	2003	2002
BALANCE, BEGINNING OF YEAR:		
As previously reported	159 200	367 357
Restatement due to changes in accounting policies:		
Regarding foreign currency translation		(12 371)
Regarding goodwill and other intangible assets		(24 147)
As restated	159 200	330 839
NET LOSS FOR THE YEAR	(510 728)	(171 639)
BALANCE, END OF YEAR	(351 528)	159 200

See accompanying notes to consolidated financial statements.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**CONSOLIDATED BALANCE SHEET**

December 31, 2003, with comparative figures for 2002

(in thousands of dollars)

	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents	89 108	373 241
Temporary investments	108 516	55 621
Accounts receivable	179 448	184 342
Inventories	168 830	168 536
Prepaid expenses	5 974	8 242
Current assets held for sale (Note 7)	9 281	6 617
Current portion of long-term investments (Note 8)	15 347	15 962
	576 504	812 561
Long-term assets held for sale (Note 7)	10 701	29 373
Long-term investments (Note 8)	806 404	924 331
Property, plant and equipment (Note 9)	1 356 547	1 248 526
Goodwill (Note 10)	2 655	22 641
Other assets (Note 11)	132 513	130 643
	2 885 324	3 168 075
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Bank loans	17 888	26 140
Accounts payable and accrued liabilities	273 881	227 926
Financial liability related to warrants		22 531
Current liabilities of businesses held for sale (Note 7)	6 585	3 789
Current portion of long-term debt (Note 12)	136 219	89 241
Current portion of share subscriptions	9 445	9 984
	444 018	379 611
Long-term liabilities of businesses held for sale (Note 7)	1 832	2 748
Long-term debt (Note 12)	579 473	394 996
Share subscriptions	19 086	23 003
Other long-term liabilities (Note 13)	28 330	31 879
Shareholder's equity:		
Capital stock (Note 14)	2 173 340	2 173 340
(Deficit) retained earnings	(351 528)	159 200
Foreign currency translation adjustments	(9 227)	3 298
	1 812 585	2 335 838
	2 885 324	3 168 075

COMMITMENTS AND GUARANTEES (Note 20)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors,
Jean-Pierre Mortreux, Director
Richard J. Renaud, Director

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS
year ended December 31, 2003, with comparative figures for 2002
(in thousands of dollars)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the year	(510 728)	(171 639)
Adjustments to:		
Amortization and depletion	65 316	58 317
Loss in value of goodwill	13 337	1 706
Share in loss (earnings) in significantly influenced companies	82 445	(703)
Impairment of property, plant and equipment and other assets	163 958	180 310
Provision for loss on long-term investments	201 149	141 747
Net gain on disposal of businesses and long-term investments	(38 017)	(219 577)
Foreign exchange (gain) loss on long-term debt, net of temporary investments	(63 097)	618
Unrealized loss on a financial liability related to warrants		4 361
Dividends received from significantly influenced companies	7 752	7 767
Capitalized interest		(2 216)
Employee future benefits	2 794	1 613
Others – net	(6 192)	6 943
	(81 283)	9 247
Net change in non-cash operating working capital items (Note 15)	3 550	(24 453)
	(77 733)	(15 206)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Temporary investments	(64 035)	(33 127)
Acquisitions of businesses and long-term investments (Notes 3 and 16 (a))	(141 781)	(311 623)
Disposal of businesses and long-term investments (Notes 15 (c) and 17 (a))	58 954	740 981
Additions to property, plant and equipment (Notes 3 and 15 (b))	(364 358)	(386 491)
Disposal of property, plant and equipment	454	2 006
Other investing activities (Note 15 (b))	(32 092)	(23 219)
	(542 858)	(11 473)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Bank loans	6 669	(1 407)
Increase in long-term debt	357 793	299 381
Repayment of long-term debt	(23 335)	(189 210)
Payment of share subscriptions	(4 456)	(9 281)
Proceeds related to warrants		18 170
Issuance of shares		200 000
	336 671	317 653
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(283 920)	290 974
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	374 479	83 505
Amounts carried forward	90 559	374 479

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)
year ended December 31, 2003, with comparative figures for 2002
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
Amounts brought forward	<u>90 559</u>	<u>374 479</u>
CASH AND CASH EQUIVALENTS RELATED TO CONTINUING OPERATIONS	89 108	373 241
CASH AND CASH EQUIVALENTS RELATED TO BUSINESSES HELD FOR SALE	<u>1 451</u>	<u>1 238</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>90 559</u>	<u>374 479</u>
 CASH AND CASH EQUIVALENTS ARE COMPRISED OF:		
Cash on hand and bank balances	45 235	22 561
Short-term liquid investments	57 114	358 958
Bank overdrafts	<u>(11 790)</u>	<u>(7 040)</u>
	<u>90 559</u>	<u>374 479</u>
 SUPPLEMENTAL DISCLOSURE:		
Interest paid	<u>27 297</u>	<u>12 782</u>

See accompanying notes to consolidated financial statements.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

year ended December 31, 2003

(in thousands of dollars)

The Company was created in 1962 under the "Loi sur la Société générale de financement du Québec", which was amended in 1996. The Government of Quebec is the sole shareholder. The purpose of the Company is to carry out, in collaboration with partners and in accordance with accepted requirements of profitability, economic development projects in the industrial sector in conformity with the economic development policies of the Government of Quebec. It has established a presence notably in the Chemicals and Petrochemicals, Mines, Metals and Industry, Healthcare and Technology, Forest Products and Energy and Agri-food.

1. CHANGES IN ACCOUNTING POLICIES

a) Disposal of long-term assets and discontinued operations

On January 1, 2003, the Company prospectively adopted Section 3475 of the CICA Handbook, "Disposal of Long-Term Assets and Discontinued Operations". According to this standard, a long-lived asset to be disposed of by sale should be classified as held-for-sale in the period in which all of the criteria are met. A long-lived asset classified as held-for-sale should be measured at the lower of its carrying amount or fair value less cost to sell, and should not be amortized while it is classified as held-for-sale. Assets and liabilities classified as held-for-sale are recorded on the balance sheet as assets held-for-sale and as liabilities held-for-sale.

A long-lived asset to be disposed of other than by sale, in particular by abandonment, before the end of its previously evaluated estimated useful life, is classified as an asset intended to be used until its disposal and amortization estimates are revised to reflect the use of the asset over its shortened useful life. In addition, this standard states that the results of operations of a component of an enterprise that either has been disposed of by sale or abandonment or is classified as held-for-sale should be reported in discontinued operations if the operation and cash flows of the component have been (or will be) eliminated from the ongoing operations of the enterprise as a result of the disposal transaction; and if the enterprise will not have any significant continuing involvement in the operations of the component after the disposal transaction. A component of an enterprise comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the enterprise. Operations related to the disposal of long-lived assets by the enterprise in 2003 are described in Note 7, "Assets Held for Sale".

b) Disclosure of guarantees

On January 1, 2003, the Company adopted the CICA's new Accounting Guideline AcG-14, "Disclosure of Guarantees," with regards to information to disclose in the consolidated financial statements regarding obligations underlying guarantees.

A guarantee is an indemnification agreement (contract) that contingently requires the indemnifying party to make payments to the other party of the contract or agreement, because of changes in an underlying that is related to an asset, a liability or an equity security of the other party, or based on a third party's failure to perform under an obligating agreement. It may also be an indirect guarantee of the indebtedness of a third party, even through the payment to the other party may not be based on changes in an underlying that is related to an asset, a liability or an equity security of such party.

The material guarantees that the Company has given to third parties are described in Note 20 (c).

2. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

These consolidated financial statements include the accounts of the Société générale de financement du Québec, its subsidiaries and joint ventures. The accounts of the subsidiaries are accounted for using the full consolidation method whereas the accounts of the Company's joint ventures are accounted for using the proportionate consolidation method.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2003

(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**b) Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenue and expenses during the reporting period. The principal estimates are related to the evaluation of venture capital investments and other long-term investments, property, plant and equipment and goodwill. Actual results could differ from those estimates. Those estimates are reviewed periodically and, as adjustments become necessary, are reported in operations in the period in which they are known.

c) Fair market value of financial instruments

The Company has estimated the fair value of its financial instruments based on current interest rates, related market values and current pricing of financial instruments with comparable terms. The carrying value of these financial instruments, such as cash and cash equivalents, temporary investments, accounts receivable, bank loans, and accounts payable and accrued liabilities, approximates their fair market value.

d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances, short-term liquid investments with maturities of three months or less and bank overdrafts.

e) Temporary investments

Temporary investments consist primarily of commercial papers and bankers' acceptances with maturities exceeding three months and are recorded at the lower of cost and market value.

f) Inventories

Inventories are valued at the lower of cost and market value. Cost is determined by using the average cost method and the first-in, first-out method, and market value is defined as replacement cost or net realizable value.

g) Long-term investments

Investments in which the Company can exercise significant influence and which are not considered venture capital investments are recorded using the equity method. This involves recording the Company's share of the earnings of a significantly influenced company from the date of acquisition.

Investments in which the Company does not exercise any control or significant influence are recorded at cost.

If a permanent decline in value occurs, the Company's policy is to write down the investment to its estimated net realizable value.

Speculative investments in companies for the purpose of supporting their development are considered venture capital investments and are recorded at their fair value which is determined by the Company's management as follows:

- i) Listed shares are recorded based on the quoted market price. When this value does not adequately represent the fair value, such investments are evaluated using the same valuation method as for unlisted shares. Shares with quoted values but which have restricted negotiability or transferability are discounted. In determining the amount of this discount, the Company takes into account the nature and duration of the restriction and the relative instability of the security price.
- ii) Unlisted shares are valued in accordance with generally accepted valuation techniques and are reviewed annually by an independent valuation committee.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2003
(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)
h) Property, plant and equipment

Property, plant and equipment are recorded at cost, less related government grants, which are recorded when eligible expenses are incurred. Cost consists of acquisition or construction costs, including interest and administrative expenses incurred during the construction of plants. Amortization is calculated mainly using the straight-line method based on the following estimated useful lives:

<u>Asset</u>	<u>Period</u>
Building	10 to 40 years
Machinery and equipment	3 to 25 years
Other	3 to 10 years

No amortization is recorded on property, plant and equipment under construction or development or that has been removed from service for an extended period of time.

i) Amortization of long-term assets

A long-lived asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. This recoverability is measured by comparing the carrying amount of assets at the estimated amount of future undiscounted cash flows directly related to the use of assets. An impairment loss is recognized if the fair value, calculated based on discounted cash flows generated during the asset's life, is below the asset's carrying amount.

j) Goodwill

Goodwill represents the excess of the cost of acquired businesses over the net value attributed to assets acquired and liabilities assumed. Goodwill is not amortized. It is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is a comparison of the fair value of the reporting units of the Company with their carrying value. When the carrying value of a reporting unit exceeds its fair value, an impairment loss is recognized for an amount equal to the excess. The fair value of a reporting unit is calculated according to evaluations or to discounted cash flows.

Goodwill presented within investments in significantly influenced companies is also not amortized. However, regarding the impairment of these assets, an impairment loss is recognized to record an investment to its estimated realizable value when there is a permanent impairment.

k) Operating licenses

The cost of operating licences is capitalized and amortized over 15 years upon commencement of operations.

l) Mining properties

Mining properties include the costs pertaining to the exploration and development of the mineral sites. However, these cumulative costs do not necessarily represent the current or future value of the projects for which they were incurred and exclude the administrative costs associated with the development and exploration work, which are recorded on the statement of operations.

When a decision is made to commence operations, all costs pertaining to the mining properties are transferred to property, plant and equipment. However, when a project is abandoned, all costs relating thereto are written off during the year the abandonment occurs. The costs incurred to maintain these mining properties are recorded in the statement of operations.

m) Start-up costs

Start-up costs include certain financial and other costs incurred during the start-up phase of certain plants. These costs are amortized using the straight-line method over a period of 3 to 5 years.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2003
(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**n) Electricity purchase agreement**

The cost of the electricity purchase agreement is based on a risk sharing formula according to the fluctuation of the price of aluminum and is amortized on a straight-line basis over the term of the agreement (15 years starting in 2002).

o) Environmental costs and commitments

Environmental costs are recorded when it is likely that a liability exists related to past events. A provision is made for future removal and site restoration costs based on interim costs, in a systematic manner, except in the case of assets which are no longer in use, for which an overall cost is immediately expensed. Accrued liabilities related to environmental costs are included in accounts payable and accrued liabilities and other long-term liabilities.

Environmental costs of a capital nature, which extend an asset's useful life, increase the capacity or improve the safety of an asset, or which mitigate or prevent environmental contamination before it occurs, are recorded in property, plant and equipment and are usually amortized over the remaining useful life of the underlying asset.

p) Foreign currency translation

Monetary assets and liabilities resulting from foreign currency transactions are translated into Canadian dollars using the exchange rates in effect at year-end. Non-monetary assets and liabilities are translated at historical exchange rates, except for those of self-sustaining foreign joint ventures which are translated at the rate prevailing at year-end. Revenue and expenses are translated during the year at the exchange rates prevailing on the transaction dates. Exchange gains or losses are included in the calculation of the results for the year.

The "Foreign currency translation adjustments" item in shareholder's equity primarily includes the exchange gains or losses arising from the translation of the investment in self-sustaining foreign joint ventures.

q) Employee future benefits

The cost of pension and other retirement benefits provided in exchange for services rendered during the year is calculated using the projected benefit method prorated on years of service, and is based on management's best estimate of economic and demographic assumptions.

Past service costs arising from a plan amendment are amortized over the average remaining service period of active employees at the date of the plan amendment. The Company amortizes the portion of actuarial gains and losses exceeding 10% of the greater of the accrued benefit obligation or the fair value of plan assets over the average remaining service period of active employees covered by the plans.

r) Derivative financial instruments

The Company uses derivative financial instruments to reduce the risks associated with fluctuations in foreign currencies, interest rates and the prices of raw materials and finished goods. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Unrealized gains and losses on derivative financial instruments, which serve to hedge certain future identifiable risks, are accounted for in operations together with the underlying items being hedged. Realized and unrealized gains or losses associated with derivative financial instruments which have been terminated or cease to be effective prior to maturity are deferred under assets or liabilities and recognized in operations in the period in which the underlying original hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative financial instruments, any realized and unrealized gains and losses on such derivative financial instruments are recognized in operations.

s) Tax status

As it is government owned, neither the Company nor its wholly-owned subsidiaries are subject to income taxes.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2003
(in thousands of dollars)

3. SUMMARY OF SEGMENTED INFORMATION

The Company has operating activities in 6 sectors. As at December 31, 2003, most investments were in the following sectors: Chemicals and Petrochemicals, Mines, Metals and Industry, Healthcare and Technology, Forest Products and Energy and Agri-food. The other sectors include the following investments: Domtar, Rona, Saputo, Investissements Novacap and Novacap II.

		Revenue	Net earnings (loss)	Segment assets	Additions to property, plant and equipment	Acquisi- tions of businesses and long- term investments
Chemicals and Petrochemicals	2003	352 043	(7 150)	772 339	87 557	
	2002	291 252	(47 439)	660 013	213 504	
Mines, Metals and Industry	2003	287 055	(211 699)	650 977	87 155	31 080
	2002	293 330	(118 447)	681 282	72 582	180 483
Health and Technology	2003	28 748	(207 673)	332 658	20 493	80 888
	2002	44 398	(121 011)	439 792	18 998	97 642
Forest Products and Energy	2003	190 285	(67 531)	561 493	166 673	1 130
	2002	211 344	(10 912)	445 201	74 960	18 530
Agri-food	2003	127 590	(6 671)	191 042	2 097	28 683
	2002	129 365	6 438	176 276	5 058	14 968
Corporate	2003		10 417	341 313		
	2002		144 459	374 777		
Segment total	2003	985 721	(490 307)	2 849 822	363 975	141 781
	2002	969 689	(146 912)	2 777 341	385 102	311 623
Corporate activities	2003		(20 421)	35 502	383	
	2002		(24 727)	390 734	1 389	
Consolidated total	2003	985 721	(510 728)	2 885 324	364 358	141 781
	2002	969 689	(171 639)	3 168 075	386 491	311 623

4. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND OTHER ASSETS

As a result of continuous overproduction by the world's magnesium industry and the substantial drop of the value of the US dollar, the Company recorded a \$72 900 000 decline in value to reduce to nil the carrying amount of net assets related to its magnesium plant.

In addition, the Company recorded amortization of \$36 900 000 to reduce to nil the carrying amount of net assets related to Gaspésia Papers following the decision of the project's partners to interrupt work as a result of recourse taken by Gaspésia Papers under the Companies' Creditors Arrangements Act.

An impairment of \$24 291 000 was also expensed to reduce carrying amounts of assets held for sale at their fair values based on selling prices.

In addition, impairments of property, plant and equipment and other assets totalled \$29 867 000 during the year.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2003

(in thousands of dollars)

5. PROVISION FOR LOSS ON OTHER LONG-TERM INVESTMENTS

Further to a notice of intention related to a proposal to creditors filed by Mines McWatters and CinéGroupe, the Company recorded provisions for losses in the statement of operations, amounting to, respectively, \$32 300 000 and \$15 600 000, to write off the net carrying amounts of these investments. In addition, the Company recorded a provision amounting to \$19 300 000 related to its investment in ADF Group to reflect the risk of the recovery plan begun in 2003 and the weakness of the stock price. Other provisions for loss on long-term investments totalling \$40 605 000 were recorded during the year.

6. FINANCIAL INCOME (EXPENSES)

	2003	2002
Interest on long-term debt	(20 000)	(12 239)
Foreign exchange gain (loss) on long-term debt	74 032	(618)
Foreign exchange loss on temporary investments	(10 935)	
Unrealized loss on a financial liability related to warrants		(4 361)
Other financial expenses	(2 969)	(3 145)
	40 128	(20 363)
Interest income on cash and cash equivalents and temporary investments	11 044	3 279
	51 172	(17 084)

7. ASSETS HELD FOR SALE

In the second half of 2003, the Company agreed to implement a plan for the sale of certain of its non-strategic investments. These participations are classified and recorded as held-for-sale until they are sold. An impairment of \$24 291 000 was recorded in operations under "Impairment of property, plant and equipment and other assets", to reduce the carrying amounts of investments at their estimated fair values less cost to sell. Fair values were determined to reflect selling prices. All of the transfers will be completed by June 30, 2004.

Some financial information was reclassified in the prior year to record these investments as assets and liabilities of companies held for sale.

The assets and liabilities of companies held for sale, are as follows:

	2003	2002
Current assets held for sale:		
Cash and cash equivalents	1 451	1 238
Temporary investments		31
Accounts receivable	5 466	2 996
Inventories	2 201	2 161
Prepaid expenses	163	191
	9 281	6 617
Long-term assets held for sale:		
Long-term investments	3 225	
Property, plant and equipment	7 476	16 670
Other assets		12 703
	10 701	29 373

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

7. ASSETS HELD FOR SALE (cont'd)

The assets and liabilities of companies held for sale, are as follows (cont'd):

	2003	2002
Current liabilities of businesses held for sale :		
Accounts payable and accrued liabilities	3 219	2 902
Current portion of long-term debt	3 366	887
	<u>6 585</u>	<u>3 789</u>
Long-term liabilities of businesses held for sale:		
Long-term debt	<u>1 832</u>	<u>2 748</u>

8. LONG-TERM INVESTMENTS

	2003		2002	
	Book value	Market value	Book value	Market value
Significantly influenced companies using equity method:				
Domtar Inc.	171 833	295 267	202 111	285 273
ADF Group Inc.		3 468	35 206	6 345
Warnex Inc.	8 373	12 491	8 862	12 086
Sequoia Minerals Inc. (Note 8 (d))	6 538	9 543		
Andromed Inc.	1 317	2 279	2 405	7 807
Private companies	<u>212 146</u>		<u>189 053</u>	
	<u>400 207</u>		<u>437 637</u>	
Venture capital, at fair value (Note 8 (a))	<u>134 813</u>		<u>203 236</u>	
Investments, at cost:				
Saputo Inc.	99 995	160 693	99 995	124 399
AEterna Laboratories Inc.:				
Shares (Note 8 (b))	40 000	22 933	40 000	31 573
Term loan, 12%	12 500			
Rona Inc.	33 531	112 437	33 531	48 846
Theratechnologies Inc. (Note 8 (b))	13 820	8 716	13 820	11 425
SkyePharma PLC	10 094	12 526	9 133	7 561
Tembec Inc:				
Debentures, 7%	10 000		20 000	
Preferred shares	9 104		9 104	
Scansoft Inc. (Notes 8 (b) and 15 (c))	5 572	5 291		
Mining royalties (Note 8 (c))			11 739	
Loans and debentures:				
Interest bearing	35 305		34 974	
Non-interest bearing	2 607		4 778	
Other (Note 8 (e))	<u>14 203</u>		<u>22 346</u>	
	<u>286 731</u>		<u>299 420</u>	
Amounts carried forward	<u>821 751</u>		<u>940 293</u>	

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

December 31, 2003

(in thousands of dollars)

8. LONG-TERM INVESTMENTS (cont'd)

	2003		2002	
	Book value	Market value	Book value	Market value
Amounts brought forward	821 751		940 293	
Less: Current portion	15 347		15 962	
	<u>806 404</u>		<u>924 331</u>	

- (a) As at December 31, 2003, the cost of venture capital investments is \$354 814 000 (December 31, 2002 – \$330 148 000).
- (b) The Company recorded these investments at amounts above their quoted market prices, because management believes that these impairments in value will not last, mainly because of the substantial fluctuations in their respective areas of activity.
- (c) Undivided non-contributive share of 2% of the flow-through shares purchased for \$12 000 000. A provision for loss was made for this investment in 2003, to reduce it to nil.
- (d) In 2002, the investment in a subsidiary of Mazarin (9102-3648 Québec) was presented as an investment at cost. Further to a corporate reorganization completed at the end of 2003, the operations of 9102-3648 Québec were continued within a new separate public company, created under the name of “Sequoia Minerals”. The Company was granted 25,96% of the common and participating shares of Sequoia Minerals issued following the conversion of shares held by the Company in the share capital of 9102-3648 Québec. This investment is now recorded as an investment in an entity subject to significant influence.
- (e) The fair value of the other investments recorded at cost is higher than the carrying amount.

9. PROPERTY, PLANT AND EQUIPMENT

	2003		2002	
	Cost	Accumulated amortization and depletion	Net	Net
Chemicals and Petrochemicals	765 796	206 659	559 137	495 892
Mines, Metals and Industry	395 353	77 751	317 602	350 311
Healthcare and Technology	76 050	16 693	59 357	112 478
Forest Products and Energy	432 910	30 522	402 388	269 286
Agri-food	21 662	9 033	12 629	13 868
Segment total	<u>1 691 771</u>	<u>340 658</u>	<u>1 351 113</u>	<u>1 241 835</u>
Corporate activities	17 674	12 240	5 434	6 691
	<u>1 709 445</u>	<u>352 898</u>	<u>1 356 547</u>	<u>1 248 526</u>

Property, plant and equipment include assets under construction or development amounting to \$300 400 000 as at December 31, 2003 (2002 – \$608 700 000) which are not amortized.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2003
(in thousands of dollars)

10. GOODWILL

For the year ended December 31, 2003, the carrying value of goodwill by segment fluctuated as follows:

	Balance as at December 31, 2002	Business acquisitions (disposals)	Foreign currency translation adjustments and others	Loss in value	Balance as at December 31, 2003
Mines, Metals and Industry	8 060	(5 374)	(1 275)	(485)	926
Forest Products and Energy	2 729			(1 000)	1 729
Healthcare and Technology	11 852			(11 852)	
	<u>22 641</u>	<u>(5 374)</u>	<u>(1 275)</u>	<u>(13 337)</u>	<u>2 655</u>

11. OTHER ASSETS

	2003			2002
	Cost	Accumulated amortization	Net	Net
Operating licenses	58 666	7 505	51 161	37 670
Mining properties	28 343		28 343	43 472
Start-up costs	19 230	3 106	16 124	13 815
Electricity purchase agreement	12 192	1 219	10 973	11 786
Accrued benefit asset (Note 21)	6 857		6 857	6 709
Land held for development project	5 624		5 624	5 624
Deposit on business acquisition	2 000		2 000	2 224
Other	13 738	2 307	11 431	9 343
	<u>146 650</u>	<u>14 137</u>	<u>132 513</u>	<u>130 643</u>

Amortization for the year ended December 31, 2003 was \$4 611 000 (\$3 828 000 in 2002).

12. LONG-TERM DEBT

	2003	2002
Secured (Note 12 a))		
7.27% note, repayable in half-yearly instalments, maturing in 2017	134 836	
Construction loan at a floating rate based on the banker's acceptance rate, the prime rate, the US base rate or LIBOR, repayable in quarterly instalments and maturing in 2006	45 271	12 615
Revolving bank loan at LIBOR and at the bankers' acceptance rate plus 3.75% and at the prime rate plus 2.75%, maturing in 2004	35 360	35 080
Revolving bank loan, variable rate, maturing in 2017	21 597	13 801
Construction loan convertible into a term loan, at a rate of 8.189% maturing in 2004	14 374	14 440
Term bank loan at the average rate of 2.27%, repayable in quarterly instalments, maturing in 2006	13 215	19 703
Bank loan at the prime rate or the US base rate plus 0.375% to 0.75% or the bankers' acceptance rate or LIBOR plus 1.375% to 1.75%, repayable in annual instalments and maturing in 2006	<u>9 499</u>	<u>15 910</u>
Amounts carried forward	<u>274 152</u>	<u>111 549</u>

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2003

(in thousands of dollars)

12. LONG-TERM DEBT (cont'd)

	2003	2002
Amounts brought forward	274 152	111 549
Subordinated debenture of a par value of \$12 500 000, interest free, maturing in 2011	7 709	8 252
Revolving bank loan at a variable rate, maturing in 2005	6 400	14 200
Bank loan at an effective rate of 6.75%, repayable in variable instalments, maturing in 2006	7 375	
Bank loan at prime rate plus 1.0%, repayable in varying instalments, maturing in 2006	6 375	6 375
Amount due to Investissement Québec:		
At prime rate plus 1.5%, repayable in quarterly instalments beginning in 2007 and maturing in 2012	61 471	16 976
At prime rate plus 1.5%, repayment subject to certain conditions	17 491	
Other	52 234	65 173
	433 207	222 525
Unsecured:		
Revolving bank loans at the prime rate, or discount rate for bankers' acceptances or at LIBOR plus 0.30% to 0.55%, maturing at various dates from 2004 to 2007	161 674	196 727
Loan due to a partner:		
At a rate of 3.608%, repayable under certain conditions (13 600 000 FL)	11 994	11 576
At the Euribor rate plus 0.125%, maturing in 2004	8 255	6 090
At the rate of 5%, maturing in 2006	5 304	4 900
Amount due to Investment Québec/Canada Economic Development:		
Interest-free, repayable at the latest in 2033	34 658	
Interest-free, repayment subject to certain conditions	27 218	9 025
Other	33 382	33 394
	282 485	261 712
Total secured and unsecured long-term debt	715 692	484 237
Less current portion	136 219	89 241
	579 473	394 996

- a) Loans from certain of the Company's joint ventures and subsidiaries are secured by various types of securities on accounts receivable, inventories and other tangible and intangible assets and hypothecs on all of the property of which the book value totalled \$1 250 000 000 as at December 31, 2003.
- b) The long-term debt denominated in U.S. dollars amounts to US\$278 003 000 (CDN\$360 431 000) as at December 31, 2003 (2002 – US\$174 435 000 (CDN\$275 189 000)).

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2003
(in thousands of dollars)

12. LONG-TERM DEBT (cont'd)

c) Principal repayments due within each of the next five years are as follows:

2004	136 219
2005	60 556
2006	129 173
2007	67 827
2008	46 760

d) The carrying amount of the long-term debt bearing interest approximates its fair value. The fair value of long-term interest-free loans could not be estimated because there were no comparable items.

13. OTHER LONG-TERM LIABILITIES

	2003	2002
Accrued benefit liability (Note 21)	22 141	19 299
Provision for site restoration	5 171	5 462
Other	1 018	7 118
	<u>28 330</u>	<u>31 879</u>

14. CAPITAL STOCK

Authorized – par value of \$10:
292 500 000 common shares

	2003	2002
Issued:		
217 334 018 common shares	<u>2 173 340</u>	<u>2 173 340</u>

The Company can request the shareholder to subscribe and pay for an additional 75 165 982 common shares representing an amount of \$751 660 000.

15. SUPPLEMENTARY CASH FLOW INFORMATION

a) The changes in non-cash working capital balances are as follows:

	2003	2002
(Increase) decrease in:		
Accounts receivable	(17 960)	(24 455)
Inventories	(11 223)	(31 298)
Prepaid expenses	778	(2 395)
Increase in:		
Accounts payable and accrued liabilities	31 955	33 695
	<u>3 550</u>	<u>(24 453)</u>

b) In addition to the acquisitions of property, plant and equipment, and other investment activities disclosed in the consolidated statement of cash flows, the Company acquired property, plant and equipment amounting to \$75 533 000 of which \$65 899 000 are financed by accounts payable and \$9 634 000 by a long-term debt (2002 – \$30 474 000 was financed by accounts payable).

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2003

(in thousand of dollars)

15. SUPPLEMENTARY CASH FLOW INFORMATION (cont'd)

- c) During the year, the Company exchanged an investment in an entity subject to significant influence for a total consideration of \$6 013 000, including \$5 572 000 in the shares of a public company, Scansoft, and an amount of \$437 000 receivable as at December 31, 2003.

In addition, during the year, a portion of the shares of an entity subject to significant influence and all the debentures of a mining company were converted into the shares of a public company, Campbell Resources, leading to a loss of \$3 014 000. A provision was made for the balance of the investment in the entity subject to significant influence in 2003.

16. ACQUISITIONS OF BUSINESSES AND LONG-TERM INVESTMENTS

- a) Acquisitions of businesses and long-term investments are detailed as follows:

	2003	2002
Significantly influenced companies:		
Main acquisitions of the year (Note 16 (b))	66 732	16 082
Others	5 130	13 359
Venture capital companies:		
Media5 Corporation	8 500	
Infectio Diagnostic (I.D.I.) Inc.	6 175	875
Medicago Inc.	3 500	
SpaceBridge Semiconductor Corporation	3 000	14 000
ITF Technologies optiques inc.		16 664
Phytobiotech inc.		7 500
Others	10 521	11 009
Investments, at cost:		
Aeterna Laboratories Inc.	12 500	40 000
Polycor inc.	8 000	
Spectra Premium inc.	7 500	
Others	9 128	14 290
Businesses	1 095	177 844
	<u>141 781</u>	<u>311 623</u>

- b) In 2003, the Company acquired new businesses and significantly influenced companies. The cost of the main acquisitions, is presented in the following table:

	% Acquired	Cost of acquisition
Significantly influenced companies		
Circuit Foil Luxembourg, s.a.r.l. ⁽¹⁾	23.09	32 124
Olymel, s.e.c. (additional investment)		25 008
Teraxion inc.	42.20	9 600
		<u>66 732</u>

- (1) During the year, the Company transferred its 49% interest in a joint venture to its joint venture partner, Circuit Foil Luxembourg, s.a.r.l., and subscribed for an additional amount of \$32 124 000 in the share capital of Circuit Foil Luxembourg, s.a.r.l. to hold 23.09% of Groupe Circuit Foil Luxembourg.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2003
(in thousand of dollars)

17. DISPOSALS OF BUSINESSES AND LONG-TERM INVESTMENTS

a) Disposals of businesses and long-term investments are detailed as follows:

	2003	2002
Businesses (Note 17 (b))	30 785	302 264
Significantly influenced companies	235	426 377
Venture capital investments	9 422	4 770
Investments, at cost	18 512	7 570
	<u>58 954</u>	<u>740 981</u>

b) In 2003, the Company disposed of all of its investments in some businesses. The net assets disposed of excluding cash and cash equivalents, are as follows:

	2003
Current assets	19 600
Long-term investment	454
Property, plant and equipment	41 091
Goodwill	5 518
Other assets	3 105
	<u>69 768</u>
Current liabilities	16 780
Long-term debt	17 933
Other long-term liabilities	701
	<u>35 414</u>
Net assets disposed	34 354
Net gain on disposal	20 856
Proceeds on disposal, net of disposed cash and cash equivalents	55 210
Shares of a public company received in consideration for a transfer	(16 758)
Balances of selling prices	(7 667)
Proceeds on disposal	<u>30 785</u>

The shares of a public company received in consideration for the transfer of an interest and balances of selling prices amounting to \$2 000 000 were subject to a provision for losses in 2003, to reduce them to nil.

18. FINANCIAL INSTRUMENTS

The Company uses the financial instruments described below:

a) Foreign currency

To reduce the impact of fluctuations in exchange rates on revenue and purchases of inventories, property, plant and equipment, and repayment of long-term debt denominated in foreign currency, the Company uses a combination of forward exchange contracts, options and currency swaps. As at December 31, 2003, the amounts committed to these financial instruments on the U.S. dollar and the euro amounted to US\$45 492 820 and €9 096 200, respectively. These instruments, maturing from January 2004 to January 2005, had unrealized gains totalling \$2 261 076 as at December 31, 2003.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2003
(in thousand of dollars)

18. FINANCIAL INSTRUMENTS (cont'd)**b) Interest rate risk**

The Company's exposure to interest rate risk is related to its long-term debt which is generally based on variable interest rates.

c) Credit risk

The above-mentioned contracts are offset by changes in the value of the underlying items being hedged. The Company may be exposed to losses if the counterparties to these contracts fail to perform. On December 31, 2003, the Company has estimated that the risk of such non-performance is remote.

The Company invests its temporary investments and its short-term liquid investments according to established policies in securities of major high-credit financial institutions. The Company is subject to economic conditions affecting the industries in which it operates. The Company continually monitors its clients' credit and establishes the provision for doubtful accounts based on the credit risk determined for each client. Management believes that there is no significant credit risk as at December 31, 2003.

19. JOINT VENTURES

Joint ventures of the Company are accounted for using the proportionate consolidation method. The major components of the joint ventures included in these consolidated financial statements are:

	2003	2002
Consolidated statement of earnings:		
Revenue	786 708	761 126
Expenses	(937 851)	(827 652)
Net loss	(151 143)	(66 526)
Consolidated balance sheet:		
Current assets	328 840	317 008
Long-term assets	1 201 094	1 102 526
Current liabilities	287 480	252 256
Long-term liabilities	315 670	227 562
Consolidated statement of cash flows:		
Operating activities	(30 062)	2 042
Investing activities	(304 156)	(366 821)
Financing activities	140 949	60 502

20. COMMITMENTS AND GUARANTEES**a) Long-term leases and commitments**

The Company is committed under long-term leases and contracts to make minimum payments totalling \$83 025 000 during the next five years and thereafter as follows:

2004	14 489
2005	12 734
2006	11 655
2007	9 620
2008	9 054
2009 and thereafter	25 473

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 year ended December 31, 2003
 (in thousand of dollars)

20. COMMITMENTS AND GUARANTEES (cont'd)**a) Long-term leases and commitments (cont'd)**

The Company is committed to acquire plant, property and equipment and to purchase services and raw materials aggregating \$230 500 000 over the next few years. The Company is also committed to repay a financial contribution totalling \$16 250 000 in the event that certain conditions stipulated in the convention agreement are not met. However, the Company's management believes that it will be able to comply, with the conditions stipulated and will not have to repay the financial contribution. The Company is also committed to subscriptions for long-term investments, which amounted to \$25 553 000 as at December 31, 2003, in addition to those recorded as short and long-term liabilities on the Company's balance sheet.

b) Credit facility

At December 31, 2003, the Company has available committed lines of credit totalling \$191 000 000, which can be used for short-term or long-term financing and bear interest at prime rate or at the money market rate.

c) Guarantees

In the normal course of business, the Company entered into certain agreements which include elements meeting the definition of a "guarantee" under AcG14. The main guarantees provided are as follows:

Supply contract

The Company offered a guarantee of a maximum amount of \$25 000 000 with regards to obligations under a client's long-term supply contract.

Financing agreements

Under the terms of its loan agreements, the Company undertook to indemnify the holders of U.S. indebtedness in the event of changes in the laws with regards to tax withholdings. These indemnification agreements will be in effect until the expiry of the loan agreements and do not contain any limits. Given the nature of these agreements, the Company cannot determine the maximum payment it may have to make to the holders. The Company did not recognize an amount on the consolidated balance sheet for these indemnification agreements.

Sales of businesses

When an enterprise is sold in whole or in part, in addition to any potential indemnification arising from the failure to execute restrictive clauses or from non-compliance with a declaration of guarantee, the company may agree to give a guarantee against any claim resulting from past activities. In general, the terms and conditions and amount of such indemnification are limited by agreement. As a result of the nature of these indemnification agreements, the Company cannot estimate the maximum potential amount of future payments it could be required to make to the indemnified parties. The Company did not recognize an amount on the consolidated balance sheet for these sales.

21. EMPLOYEE FUTURE BENEFITS

The Company offers various contributory and non-contributory defined benefit pension plans to its employees which are based on years of service and average final earnings of these employees. In addition, the Company offers employees other post-retirement and post-employment benefits consisting mainly of group insurance plans which are not funded.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2003

(in thousand of dollars)

21. EMPLOYEE FUTURE BENEFITS (cont'd)

- a) The following table presents information relating to the various plans of the Company, as at December 31, 2003, as established by independent actuaries:

	2003			2002
	Pension plans	Other plans	Total	Total
Accrued benefit obligations	111 564	15 507	127 071	117 035
Plan assets at fair value	87 113		87 113	65 422
Deficit – end of year	<u>(24 451)</u>	<u>(15 507)</u>	<u>(39 958)</u>	<u>(51 613)</u>
Accrued benefit asset	6 857		6 857	6 709
Accrued benefit liability	<u>(10 354)</u>	<u>(11 787)</u>	<u>(22 141)</u>	<u>(19 299)</u>
Net recorded amount	<u>(3 497)</u>	<u>(11 787)</u>	<u>(15 284)</u>	<u>(12 590)</u>
Expenses for the year	6 683	1 888	8 571	5 375
Employer contributions	5 592	185	5 777	3 762
Employee contributions	2 022		2 022	1 870
Benefits paid	5 310	349	5 659	4 528

- b) The weighted average actuarial assumptions used by the Company as at December 31, are as follows:

	2003		2002	
	Pension plans %	Other plans %	Pension plans	Other plans %
Discount rate	6.30	6.30	6.75	6.75
Long-term rate of return on plan assets	7.25		8.00	
Salary escalation rate	3.70	3.70	3.70	3.70

For measurement purposes, an annual weighted average rate of increase in the per capita cost of covered health care benefits of 9.85% was assumed for 2004 (2003 – 10.5%). The rate was assumed to decrease gradually to reach approximately 5% in 2009 and remain at that level thereafter.

22. COMPARATIVE FIGURES

Certain comparative figures for the previous year have been reclassified to conform with the financial statement presentation adopted in the current year.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**MANAGEMENT AND AUDITOR' REPORT**

To the shareholder of
Société générale de financement du Québec

In the discharge of its duties, the Board of Directors of Société générale de financement du Québec has delegated the preparation of its consolidated financial statements to management.

The consolidated financial statements for 2003 were audited by an independent firm of auditors, KPMG s.r.l. / S.E.N.C.R.L., before their presentation to the Board of Directors, which approved them upon recommendation of the duly constituted and appointed Audit Committee.

Management believes that these statements have been prepared in accordance with generally accepted accounting principles. They take into consideration, within reasonable limits, all significant accounting policies referred to in the notes to the consolidated financial statements included herein.

Henri A. Roy
Chairman of the Board
President and General Manager

Jean-Jacques Carrier
Vice-President and
Chief Financial Officer

June 10, 2004

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the consolidated balance sheet of Société générale de financement du Québec as at December 31, 2003 and the consolidated statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Loi sur le Vérificateur général (L.R.Q., c. V-5.01), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year, with the exception of the changes in accounting policies described in Note 1.

KPMG s.r.l. / s.e.n.c.r.l.
Chartered Accountants

Montréal, Canada
March 11, 2004

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC
(R.S.Q., c. S-17.1)

INCOME
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
REVENUE		
Rentals		
Government departments and agencies customers	486 263	457 548
Other customers	20 372	20 244
Parking lots	26 226	25 326
Leasehold improvements and other services offered to customers	72 348	62 334
Leasing of dams		1 400
Gain on transfer of immovable	784	1 300
Other	1 389	509
	<u>607 382</u>	<u>568 661</u>
EXPENDITURE		
Rent and business taxes on leased property	195 900	184 816
Operating expenses for immovable (Note 14)	147 079	145 664
Financial expenses – net (Note 15)	66 603	61 735
Real estate and business taxes on immovable	64 509	62 411
Leasehold improvements and other services offered to customers	68 301	58 174
Depreciation (Note 16)	29 994	29 169
General and administrative expenses – net (Note 17)	9 506	9 012
Expenses related to dams		1 375
Fees related to projects that have been dropped (Note 18)	3 574	
	<u>585 466</u>	<u>552 356</u>
NET INCOME	<u><u>21 916</u></u>	<u><u>16 305</u></u>

RETAINED EARNINGS
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
OPENING BALANCE	51 446	35 141
Net income	<u>21 916</u>	<u>16 305</u>
CLOSING BALANCE	<u><u>73 362</u></u>	<u><u>51 446</u></u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC
BALANCE SHEET
 as at March 31, 2004
 (in thousands of dollars)

	<u>2004</u>	<u>2003</u>
ASSETS		
Immovable (Notes 3 and 4)	1 400 904	1 325 493
Receivables linked to development (Note 5)	152 304	142 355
Work in progress (Note 4)	29 683	36 205
Long-term investments (Note 6)	13 985	13 972
Equipment (Note 7)	8 493	9 281
Accounts receivable (Note 8)	31 631	27 088
Other assets – net (Note 9)	<u>20 262</u>	<u>16 910</u>
	<u>1 657 262</u>	<u>1 571 304</u>
LIABILITIES		
Long-term debt (Note 10)	982 962	1 044 364
Short-term borrowings (Note 11)	383 127	239 264
Accounts payable and accruals (Note 12)	128 064	142 564
Outstanding cheques less cash on hand	<u>2 080</u>	<u>5 999</u>
	<u>1 496 233</u>	<u>1 432 191</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 13)	80 001	80 001
Gouvernement du Québec contribution	7 666	7 666
Retained earnings	<u>73 362</u>	<u>51 446</u>
	<u>161 029</u>	<u>139 113</u>
	<u>1 657 262</u>	<u>1 571 304</u>

COMMITMENTS (Note 23)**CONTINGENCIES** (Note 24)

On behalf of the Board of Directors,
 Marc-A. Fortier, Adm.A., President of the Board of Directors and
 President and Chief Executive Officer
 Sebastiano Faustini, CA, Administrator

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

CASH FLOWS
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Accounts receivable– clients	600 202	572 736
Accounts payable– suppliers and staff members	(501 756)	(460 122)
Interest earned	11 775	10 860
Interest paid	<u>(74 795)</u>	<u>(73 113)</u>
Cash flows related to operating activities	<u>35 426</u>	<u>50 361</u>
INVESTMENT ACTIVITIES		
Acquisitions of immovable	(101 243)	(112 704)
Expansion of Palais des Congrès de Montréal		(30 853)
Proceeds from the sale of the Palais des Congrès in Montréal	1 347	212 333
Receivables linked to development	(9 949)	(10 950)
Long-term investments	(13)	4
Acquisitions of equipment	(1 557)	(2 462)
Acquisitions of other net assets	(4 892)	(5 623)
Proceeds from disposal of immovables	<u>2 178</u>	<u>24 244</u>
Cash flows related to investment activities	<u>(114 129)</u>	<u>73 989</u>
FINANCING ACTIVITIES		
Proceeds from long-term borrowings		405 000
Proceeds from short-term net borrowings	143 863	(224 199)
Reimbursement of debt under capital lease contracts	(394)	(350)
Reimbursement of long-term debt	<u>(60 847)</u>	<u>(305 757)</u>
Cash flows related to financing activities	<u>82 622</u>	<u>(125 306)</u>
INCREASE (DECREASE) NET DECREASE IN CASH AND CASH EQUIVALENTS *	3 919	(956)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>(5 999)</u>	<u>(5 043)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>(2 080)</u>	<u>(5 999)</u>

* Cash and cash equivalents include outstanding cheques less cash on hand.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2004

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Société is a joint stock company established the September 25, 1984, by the Act respecting the Société immobilière du Québec (R.S.Q., c. S-17.1). Its purpose is to make buildings and property available to government departments and agencies, for a consideration, and provide them with construction, operating and management services.

The Société houses the majority of government departments and agencies, with the exception notably of the health and education and, in this way, it is present throughout Québec.

Under section 984 of the Québec Taxation Act and section 149 of the Canada Income Tax Act, the Société is not subject to income tax.

2. ACCOUNTING POLICIES

The Société's financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. The Société's accounting policies and standards for presenting financial information comply with the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Private and Public Real Estate Companies.

Use of estimates

To prepare the financial statements in keeping with the accounting principles generally recognized in Canada, management had to use estimates and assumptions that affect the assets and liabilities posted, the presentation of potential assets and liabilities as of the date of the financial statements, and the amounts recorded for proceeds and charges during the year. Real results may differ from these estimates.

Immovables

- *In operation*

Immovables in operation are recorded at cost. The cost includes all of the amounts related to the acquisition, construction, capital-lease contracts and the improvement of fixed assets.

Fixed asset amortization is calculated at the rate of 5% using the annuity method of depreciation so as to fully amortize building costs over periods ranging from 15 to 50 years.

- *Under construction*

Immovables in operation are recorded at cost. In addition to direct costs, the cost of immovables under construction includes operating expenses, property taxes, interest and the applicable portion of general and administrative expenses related thereto, less rental income. Immovables under construction are not deemed to be in operation until the project is fully completed and the premises have reached a satisfactory level of occupancy within a reasonable time limit.

When a project has been fully completed and the premises have reached a satisfying level of occupancy, after a reasonable time period, the cost of buildings under construction is transferred to buildings in operation.

- *Intended for sale*

Immovables intended for sale are valued at the lower of amortized cost and net realizable value. No depreciation on these immovables is recorded once the Société decides to sell them.

Long-term depreciation of assets

Long-term assets are reviewed to determine whether their value has declined when events or changes in a situation show that the book value of an asset might not be recoverable. Depreciation is assessed by comparing the book value of an asset with the net non-capitalized cash flows envisaged for use and with its residual value. If the Société feels that the assets' value has depreciated, the amount of the depreciation is posted to charges for the fiscal year.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2004

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Investments**

Share in a satellite corporation is recorded at consolidation value.

Work in progress

Work in progress represents construction projects and minor uncompleted development projects to be invoiced on presentation of a progress report or when work has been completed. This work is recorded at cost with the amounts invoiced having been deducted from this cost.

Equipment

Equipment used for administrative purposes are recorded at cost and amortized using the straight-line method over periods ranging from 3 to 15 years.

Other assets

- *Deferred expenses*

The cost of developing computer systems is amortized according to the straight-line method over a period of 5 years.

The other deferred expenses and income are amortized according to the straight-line method over a period of 3 to 30 years.

- *Discount and long-term debt issuing costs*

The premium, discount and long-term debt issuing costs are amortized over the duration of the debt using the straight-line method.

Recording proceeds

- *Space rental*

The proceeds from space rental are invoiced according to foreseeable costs. These costs are divided among the government's departments and agencies that are the Société's clients based on the terms and conditions resulting from the regulation respecting rate-setting of the Société's services. Occupancy agreements are signed by the Société and the Departments and agencies of the Gouvernement du Québec subject to doing business with the Société.

- *Development and other services offered to clients*

The proceeds are recorded when the goods are delivered or the services rendered.

The interest earnings from receivables linked to development are recorded according to the duration of related receivables using the effective interest method.

Derivative financial instruments

The Société uses swap agreements in its interest rate management program. Swap agreements give rise to periodic interest payment exchange with exchange of the notion on which the payments are based. These payments are recorded as adjustment of debt interest on the borrowing instrument covered. The corresponding amount payable to contras or receivable from contras is posted to adjustment of accrued interest.

Pension plans

The Société participates in government defined-benefit plans. Since it lacks sufficient information to apply the accounting procedure for defined-benefits plans, it applies the accounting procedure used for defined-contribution plans.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

3. IMMOVABLES

	Land	Buildings	Immovables under capital leases	Total 2004	Total 2003
In operation	121 850	1 419 572	56 041	1 597 463	1 443 139
Under construction		79 831		79 831	131 482
Intended for sale	1 264	662		1 926	2 998
	123 114	1 500 065	56 041	1 679 220	1 577 619
Accumulated depreciation		269 899	8 417	278 316	252 126
	<u>123 114</u>	<u>1 230 166</u>	<u>47 624</u>	<u>1 400 904</u>	<u>1 325 493</u>

4. EXPENSES CAPITALIZED TO IMMOVABLES AND WORK IN PROGRESS

	2004	2003
During the year, the following costs were capitalized:		
Wages and general and administrative expenses (Note 17)	11 292	12 174
Interest (Note 15)	2 542	6 036
Operating expenses, property taxes less rental income	471	498
	<u>14 305</u>	<u>18 708</u>

5. ACCOUNTS RECEIVABLE LINKED TO DEVELOPMENTS

Accounts receivable from government departments and agencies, repayable in monthly instalments including capital and interest at rates varying from 5% to 11.01%, due between 2004 and 2019.

The estimated amount of cash receipts break down as follows:

Exercise

2005	27 997
2006	24 862
2007	21 444
2008	17 611
2009	26 392
2010 to 2019	<u>33 998</u>
	<u>152 304</u>

6. LONG-TERM INVESTMENTS

	2004	2003
Société Bon Pasteur enr. (S.E.N.C.)		
Cost	2 300	2 300
Share in results since its creation	1 870	1 584
Term loan, guaranteed by a first real estate mortgage, pari passu, at the rate of 6.51% cashable in monthly payments of \$76 390 in principal and interest, renewable in 2007, maturing in 2022	<u>9 815</u>	<u>10 088</u>
	<u>13 985</u>	<u>13 972</u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

6. LONG-TERM INVESTMENTS (cont'd)

The estimated amount of cash receipts break down as follows:

Fiscal year

2005	295
2006	314
2007	335
2008	357
2009	381
2010 to 2022	<u>8 133</u>
	<u>9 815</u>

7. EQUIPMENT

	<u>2004</u>	<u>2003</u>
Equipment	24 350	22 958
Accumulated depreciation	<u>15 857</u>	<u>13 677</u>
	<u>8 493</u>	<u>9 281</u>

8. ACCOUNTS RECEIVABLE

	<u>2004</u>	<u>2003</u>
Related parties	24 859	20 223
Other	<u>6 772</u>	<u>6 865</u>
	<u>31 631</u>	<u>27 088</u>

9. OTHER ASSETS - NET

	<u>2004</u>	<u>2003</u>
Deferred expenses at amortized cost	16 771	13 297
Discount and issue expenses on long-term debt at amortized cost	1 005	1 166
Prepaid expenses	<u>2 486</u>	<u>2 447</u>
	<u>20 262</u>	<u>16 910</u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2004

(in thousands of dollars)

10. LONG-TERM DEBT

	2004	2003
Bonds at effective rates of 9.36% to 10.78%, guaranteed by the Gouvernement du Québec, maturing between 2006 and 2014 ^a	219 673	219 673
Notes owed to the Financing Fund of the Gouvernement du Québec		
Fixed effective rates of 5.59% to 6.56%, maturing between 2005 and 2032	587 458	587 458
Effective rate of bank acceptances plus 0.258% , maturing in 2007	28 920	28 920
Borrowings linked to swap agreements from the Financing Fund of the Gouvernement du Québec at effective rates of 5.74% to 6.83%, maturing between 2008 and 2030 ^b	95 300	95 300
Commitments under capital leases ^c	51 155	51 549
Borrowings at varying rates and terms	456	464
Debt coming due during the fiscal year	61 000	61 000
	<u>982 962</u>	<u>1 044 364</u>

Payments of principal excluding capital lease contracts, are as follows:

Year	
2005	9
2006	154 012
2007	39 177
2008	13
2009	<u>20 015</u>
	213 226
2010 to 2014	337 993
2015 to 2019	150 191
2020 to 2024	15
2025 to 2029	
2030 to 2032	<u>230 382</u>
	<u>931 807</u>

a On March 28 of each year from 2005 to 2012 inclusive, series E holders (\$59.4 million) may exercise this option and demand the redemption by the Société of the bonds at par value. The maximum value of bonds the Société would be required to redeem over the next eight fiscal years is \$9 million annually.

b These interest-rate swap agreements allow the short-term borrowings variable rates to be converted into fixed long-term rates. These temporary borrowings will be renewed on maturing during the entire duration of the interest-rate swap agreement.

c The minimum payments for capital leases for the coming fiscal years are as follows:

Year	
2005	9 629
2006	9 629
2007	9 629
2008	9 629
2009	9 629
Thereafter	<u>192 339</u>
Total minimum payments payable	<u>240 484</u>
Less: Theoretical interest at a rate of 10.59%	99 829
Incidental expenses	<u>89 500</u>
	<u>189 329</u>
	<u>51 155</u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2004

(in thousands of dollars)

11. SHORT-TERM BORROWINGS

The short-term borrowings of the Société, of an authorized amount of \$750 million, bear interest at an average rate of 2.30% and mature between April 1 and April 29, 2004.

At March 31, 2004, the Société had contracted short-term borrowings from the Financing Fund of the Gouvernement du Québec in the amount of \$282 million (2003: \$143 million).

12. ACCOUNTS PAYABLE AND ACCRUALS

	<u>2004</u>	<u>2003</u>
Related parties	22 606	29 059
Other	<u>105 458</u>	<u>113 505</u>
	<u>128 064</u>	<u>142 564</u>

13. CAPITAL STOCK

The shares of the Société immobilière du Québec are held by the Minister of Finance.

	<u>2004</u>	<u>2003</u>
Authorized:		
100 000 shares with a par value		
of \$1 000 each		
Issued and paid up:		
80 001 shares	<u>80 001</u>	<u>80 001</u>

14. OPERATING EXPENSES FOR IMMOVABLES

	<u>2004</u>	<u>2003</u>
Preservation	21 988	22 237
Operating	93 775	92 553
Wages, other direct costs and general expenses		
posted to operations (Note 17)	30 971	28 169
Relocation expenses	<u>345</u>	<u>2 705</u>
	<u>147 079</u>	<u>145 664</u>

15. FINANCIAL EXPENSES - NET

	<u>2004</u>	<u>2003</u>
Interest expenses:		
Long-term debt	67 121	64 352
Commitments under capital leases	5 437	5 481
Amortization of the premium, discount and issue		
expenses on long-term debt	161	274
Short-term borrowings	9 353	10 541
Other	<u>80</u>	<u>174</u>
Amount carried forward	 82 152	 80 822

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

15. FINANCIAL EXPENSES – NET (cont'd)

	2004	2003
Amount brought forward	82 152	80 822
Interest income:		
Receivables linked to development	10 508	9 809
Other	1 233	1 006
	11 741	10 815
	70 411	70 007
Less:		
Interest capitalized to immovables and to work in progress (Note 4)	2 542	6 036
Interest posted to results under general and administrative expenses	1 266	2 236
	3 808	8 272
	66 603	61 735

16. DEPRECIATION

	2004	2003
Immovables	27 238	25 078
Equipment and other assets	3 792	6 384
	31 030	31 462
Less:		
Amortization charged to results under general and administrative expenses	1 036	2 293
	29 994	29 169

17. GENERAL AND ADMINISTRATIVE EXPENSES - NET

	2004	2003
Salaries and fringe benefits	43 323	40 838
Administrative offices expenses	4 138	4 025
Other administrative expenses	4 325	4 525
	51 786	49 388
Less:		
Expenses capitalized to immovables and work in progress (Note 4)	11 292	12 174
Expenditures charged to operating costs of immovables (Note 14)	30 971	28 169
	42 263	40 343
	9 523	9 045
Recovery of bad debts	(17)	(33)
	9 506	9 012

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2004

(in thousands of dollars)

18. FEES RELATED TO PROJECTS THAT HAVE BEEN DROPPED

The fees related to projects that have been dropped represent the unrecoverable portion of costs, for projects that will not be carried out or that are to be carried out according to different terms and conditions, less amounts to be invoiced to the clients involved. The loss resulting from this work in progress, net sums invoiced in the amount of \$1 076 million, is \$3 574 million.

19. FINANCIAL INSTRUMENTS**A) Interest-rate risk**

The financial assets and liabilities that bear interest at fixed rates do not expose the Société to the risk of major rate fluctuations. For variable-rate financial instruments, every 1% fluctuation in the interest rate on their year-end balance causes net results to vary by approximately \$4 million.

B) Credit risk

The Société assesses the financial condition of its clients other than government departments and agencies on an ongoing basis and studies each new client's credit history. The Société establishes a provision for bad debts based on specific clients' credit risk, historical trends and other information.

C) Fair value

The following methods and assumptions were used to evaluate the fair value of financial instruments.

Accounts receivable, short-term borrowings, accounts payable, accrued expenses, outstanding cheques minus cash: the book value shown in the financial statement is close to the fair value of these items given that they mature in the near future.

Long-term debt: the fair of the long-term debt is evaluated by capitalizing, at the current borrowing rate for equivalent terms, the interest and capital payments of outstanding borrowings. The fair value of the long-term debt at March 31, 2004 was \$1 010.5 million versus a book value of \$887.7 million (\$1 032.7 million versus \$949.1 million at March 31, 2003).

Swap agreements: the fair value reflects the estimated amounts that the Société would have to pay to terminate unfavourable contracts at the date of the financial statement. The fair value of swap agreements at March 31, 2004 was \$110.9 million for a nominal reference amount of \$95.3 million (\$106 million for \$95.3 million at March 31, 2003).

Receivables linked to development: the book value shown in the financial statements is close to the fair value of these items.

Mortgage receivable: the fair value of the term loan is assessed using the analysis of the cash flows capitalized at the current corresponding borrowing rate that applies to similar borrowings. The fair value of the term loan at March 31, 2004 was \$10.2 million versus a book value of \$9.8 million (\$9.7 million versus \$10.1 million at March 31, 2003).

20. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP), Pension Plan of Management Personnel (PPMP) or Pension Plan of Senior Civil Servants (PPSCS) administered by a Québec government agency. These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Société's liability towards these government plans is restricted to its contributions as an employer. The Société's contributions charged to the year-end statement amount to \$1.3 million (2003: \$1.3 million).

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2004

(in thousands of dollars)

20. FUTURE FRINGE BENEFITS (cont'd)**Provision for vacation time and sick leave**

	2004		
	Vacation time	Sick leave	Total
Opening balance	3 967	5 722	9 689
Charges for the year	2 372	1 184	3 556
Sub-total	6 339	6 906	13 245
Less:			
Benefits paid during the year	2 294	1 196	3 490
Closing balance	4 045	5 710	9 755

The balance of this provision is included under the item "Accounts receivable and accrued expenses".

21. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it.

The business transactions carried out with related parties in the normal course of operations occurred under normal business conditions and were measured at exchange value. These transactions are not shown separately in the financial statements.

22. NON-MONETARY OPERATIONS

During the year, the Société disposed of two waterworks and sewer systems for the nominal sum of \$1 each, representing their book value, one of which to the related enterprise Société des établissements de plein air du Québec (Sépaq). This disposal obliges the Société to carry out work to bring these systems up to standard totalling \$4.5 million, including \$1.5 million for the system transferred to Sépaq. Since the work done to bring them up to standard did not raise the value of the assets disposed of, the resulting depreciation was considered in the fiscal year's results under the heading "Conservation" under operating costs related to immovables.

23. COMMITMENTS**Operating leases**

The minimum payments required under operating leases are as follows:

Year	
2005	175 365
2006	133 457
2007	108 488
2008	85 049
2009	68 739
Thereafter	255 010
	<u>826 108</u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004
(in thousands of dollars)

23. COMMITMENTS (cont'd)**Construction and major leasehold improvement projects**

As at March 31, 2004, external work and fees related to construction and major leasehold improvement projects were part of contractual agreements totalling \$30 million.

24. CONTINGENCIES**Disputes**

In the normal course of its business, the Société is exposed to various claims and lawsuits. Management feels that an appropriate provision was made for disbursement that might result from these disputes and does not foresee any unfavourable effect on the Société's financial position and operating results.

Environment

The Société's activities are subject to environmental laws, regulations and adopted by government authorities. The Société deems that the environmental risks are properly managed and no actual or probable liability can be envisaged.

25. COMPARATIVE FIGURES

Certain 2003 figures have been reclassified for consistency with the presentation adopted in 2004.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société immobilière du Québec and all of the information contained in this annual report are the responsibility of management. Approved by the board of directors, the financial statements were drawn up in accordance with the accounting principles that are generally recognized in Canada and by the Canadian Institute of Public and Private Real Estate Companies and include amounts based on best judgements and estimates. All other financial information contained in the annual report is consistent with that presented in the financial statements.

Management adopted a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are recorded properly.

The Board of Directors fulfilled its responsibility with regard to the financial statements, mainly through its audit committee. This committee met periodically with management and the internal auditor to ensure that the internal accounting controls were adequate and that the financial data pertaining to the Société was reported in its entirety. The committee examined the financial statements and recommended that the Board of Directors adopt them.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Marc-A. Fortier, Adm. A.
President of Board of Directors, President and Chief Executive Officer

Jacques Vaillancourt, CA
Vice-President, Administration and Finance

Québec, June 2, 2004

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Société immobilière du Québec as at March 31, 2004 and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 14, 2004

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL
(R.S.Q., c. S-17.2.0.1)

LOSS AND DEFICIT
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUES		
(Losses) gains on disposal of investments	\$(739 208)	\$4 539 586
Investment income	1 920 047	1 918 000
Interest on temporary investments	1 543 823	870 318
Other	<u>150 451</u>	<u>21 497</u>
	<u>2 875 113</u>	<u>7 349 401</u>
EXPENSES		
Operating expenses:		
Salaries and benefits	3 572 832	3 386 212
Professional and contractual services (Note 3)	379 658	57 006
Rent and taxes	412 964	365 135
Advertising, promotion and annual report	283 248	382 149
Telephone and courier	81 462	85 286
Travel and business development	274 345	328 628
Office expenses	168 231	176 709
Amortization of capital assets	183 601	219 119
Other	<u>13 096</u>	<u>33 629</u>
	<u>5 369 437</u>	<u>5 033 873</u>
(Loss) earnings before investment related expenses	(2 494 324)	2 315 528
Investment related expenses (Note 4)	<u>40 851 452</u>	<u>81 957 102</u>
NET LOSS	(43 345 776)	(79 641 574)
DEFICIT AT BEGINNING OF YEAR	<u>(105 637 818)</u>	<u>(25 996 244)</u>
DEFICIT AT END OF YEAR	<u><u>\$(148 983 594)</u></u>	<u><u>\$(105 637 818)</u></u>

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL

BALANCE SHEET
as at March 31, 2004

	2004	2003
ASSETS		
Current assets		
Cash	\$280 676	\$1 204 752
Temporary investments (Note 5)	36 997 399	56 444 481
Accounts receivable (Note 6)	3 090 923	2 867 704
Prepaid expenses	59 456	75 848
	<u>40 428 454</u>	<u>60 592 785</u>
Loans receivable, non-interest bearing, maturing no later than March 2006	113 362	1 653 110
Investments (Note 7)	153 277 741	174 861 493
Capital assets (Note 8)	<u>207 230</u>	<u>345 890</u>
	<u><u>\$194 026 787</u></u>	<u><u>\$237 453 278</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	<u>\$1 062 381</u>	<u>\$1 143 096</u>
SHAREHOLDER'S EQUITY		
Share capital (Note 9)	341 948 000	341 948 000
Deficit	<u>(148 983 594)</u>	<u>(105 637 818)</u>
	<u>192 964 406</u>	<u>236 310 182</u>
	<u><u>\$194 026 787</u></u>	<u><u>\$237 453 278</u></u>
COMMITMENTS (Note 10)		

On behalf of the Board of Directors,
Denise Martin, Chairman of the Board of Directors
Jacques Allard, Chairman of the Audit Committee

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL**CASH FLOWS**

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
CASH FLOWS APPLIED TO OPERATING ACTIVITIES		
Net loss	\$(43 345 776)	\$(79 641 574)
Adjustments for:		
Amortization of capital assets	183 601	219 119
Gains on disposal of capital assets	(588)	
Interest and dividends capitalized to investments	(1 061 349)	(884 960)
Loan impairment	3 652 058	7 729 158
Permanent decline in value of equity interests	36 730 101	72 875 871
Losses (gains) on disposal of investments	<u>739 208</u>	<u>(4 539 586)</u>
	(3 102 745)	(4 241 972)
Change in non-cash items related to operations		
Changes in accounts receivable	(223 219)	326 318
Changes in prepaid expenses	16 392	(28 586)
Changes in loans receivable	1 539 748	(1 653 110)
Changes in interest receivable		103 243
Changes in accounts payable and accrued liabilities	<u>(80 715)</u>	<u>(59 952)</u>
	<u>(1 850 539)</u>	<u>(5 554 059)</u>
CASH FLOWS APPLIED TO INVESTING ACTIVITIES		
Acquisition of capital assets	(45 956)	(127 260)
Proceeds on disposal of capital assets	1 603	
Investments (Note 13)	(33 897 711)	(39 170 813)
Proceeds on disposal of investments (Note 13)	13 528 646	23 469 485
Reimbursement of investments	<u>1 892 799</u>	<u>3 850 575</u>
	<u>(18 520 619)</u>	<u>(11 978 013)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on issue of share capital	<u></u>	<u>50 000 000</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(20 371 158)	32 467 928
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>57 649 233</u>	<u>25 181 305</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 14)	<u><u>\$37 278 075</u></u>	<u><u>\$57 649 233</u></u>

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS March 31, 2004

1. GOVERNING STATUTE AND NATURE OF ACTIVITIES

Société Innovatech du Grand Montréal is a legal person of public law established under Chapter 33 of the statutes of 1992 and continued as a company with share capital by virtue of its governing statute, the Act respecting Société Innovatech du Grand Montréal (R.S.Q., c. S-17.2.0.1). The Société's mission is to promote and support initiatives designed to develop technological innovation capabilities in the territory described in Schedule A of its governing statutes, namely the south-western part of the Province of Québec, and thereby enhance competitiveness and economic growth of the Province of Québec, while generating returns that will sustain its activities.

The Société defines itself as a venture capital corporation, that is, its investments are made in the form of speculative investments in companies with strong growth potential.

Pursuant to federal and provincial income tax legislation, the Société is not subject to income taxes.

2. ACCOUNTING POLICIES

The financial statements of the Société have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain amounts based on management's best estimates and judgments.

Temporary investments

Temporary investments are recorded at cost.

Investments

Investments are made in the form of:

- common shares
- preferred shares
- limited partnership units
- loans
- warrants
- investments in trust

Loans include capitalized interest, when provided for under agreement. Investments are accounted for at cost, less any permanent decline in value and allowance for loan impairment, if applicable.

Allowance for loan impairment

When loans are identified as impaired, their carrying amounts are reduced to their estimated realizable value. When the amounts and the timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable value is measured at observable market prices or according to management's judgment.

Cash flows

The Société presents in its cash and cash equivalents bank balances and temporary investments that are readily convertible into cash, and which are not subject to a risk of changes in value.

Capital assets

Capital assets are recorded at cost and amortized over their estimated useful lives under the straight-line method at the following rates:

- Furniture and equipment	20%
- Computer hardware and software	33 1/3%
- Leasehold improvements	20%

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2004**3. PROFESSIONAL AND CONTRACTUAL SERVICES**

The amounts that the Société receives as reimbursement of expenses for analyzing investment files, representing \$214 088 (2003: \$449 146), are netted against professional and contractual services.

4. INVESTMENT RELATED EXPENSES

Investment related expenses are broken down as follows:

	2004	2003
Settlement of a litigation and exercised loan guarantees		\$40 852
Bad debts	\$469 293	1 311 221
Loan impairment	3 652 058	7 729 158
Permanent decline in value of equity interests	36 730 101	72 875 871
	<u>\$40 851 452</u>	<u>\$81 957 102</u>

5. TEMPORARY INVESTMENTS

The Société's cash surpluses are invested in a treasury management fund and in liquid, low-risk investment vehicles.

6. ACCOUNTS RECEIVABLE

	2004	2003
Accrued interest and other	\$699 616	\$2 753 985
Proceeds receivable on disposal of investments	2 391 307	113 719
	<u>\$3 090 923</u>	<u>\$2 867 704</u>

7. INVESTMENTS

	2004		2003	
	Book value before permanent decline and loan impairment for the year	Permanent decline and loan impairment for the year	Net book value	Net book value
Share capital and limited partnership units				
Common shares				
- private companies	\$47 660 321	\$19 109 471	\$28 550 850	\$50 704 197
- public companies (market value: \$36 754 505) *	26 043 721	1 948 208	24 095 513	24 583 060
Preferred shares				
- redeemable and/or convertible (maturing from 2004 to 2008)	5 475 081	500 000	4 975 081	6 272 185
- redeemable and/or convertible (unspecified maturity)	55 518 238	12 256 274	43 261 964	45 514 347
Warrants	7 500		7 500	
Limited partnership units	29 163 168	2 916 148	26 247 020	23 596 418
Sub-total (amounts carried forward)	<u>\$163 868 029</u>	<u>\$36 730 101</u>	<u>\$127 137 928</u>	<u>\$150 670 207</u>

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2004

7. INVESTMENTS (cont'd)

	2004			2003
	Book value before permanent decline and loan impairment for the year	Permanent decline and loan impairment for the year	Net book value	Net book value
Amounts brought forward	\$163 868 029	\$36 730 101	\$127 137 928	\$150 670 207
Loans**				
- convertible (maturing from 2004 to 2009)	15 691 437	2 172 058	13 519 379	10 701 012
- convertible (unspecified maturity)	4 011 064	1 290 000	2 721 064	1 870 320
- non-convertible (maturing from 2004 to 2008)	9 461 341		9 461 341	7 826 802
- non-convertible (unspecified maturity)	628 029	190 000	438 029	652 335
Sub-total	29 791 871	3 652 058	26 139 813	21 050 469
Investments in trust				3 140 817
Total	\$193 659 900	\$40 382 159	\$153 277 741	\$174 861 493

* The stock market value of public companies' investments that represents their closing price on the stock markets as at March 31, 2004 differs from the fair value shown in Note 12 due to the method used by the Société to value securities of public companies.

** The total of impaired loans for each loan category matched against their respective provisions is as follows:

	2004	2003
- convertible (maturing from 2004 to 2009)	\$2 790 058	\$6 000 288
- convertible (unspecified maturity)	1 590 000	2 327 869
- non-convertible (maturing from 2004 to 2008)		620 000
- non-convertible (unspecified maturity)	330 000	45 000
	<u>\$4 710 058</u>	<u>\$8 993 157</u>

8. CAPITAL ASSETS

	2004			2003
	Cost	Accumulated amortization	Net	Net
Furniture and equipment	\$96 288	\$55 319	\$40 969	\$69 847
Computer hardware and software	444 852	280 441	164 411	271 420
Leasehold improvements	6 011	4 161	1 850	4 623
	<u>\$547 151</u>	<u>\$339 921</u>	<u>\$207 230</u>	<u>\$345 890</u>

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2004**9. SHARE CAPITAL**

The principal purpose of the Act respecting Société Innovatech du Grand Montréal is to enable the Société to continue its existence and to be endowed with authorized capital of \$350 000 000.

The share capital is issued to the Minister of Finance, and is therefore under the responsibility of the Government of Québec.

	<u>2004</u>	<u>2003</u>
Authorized:		
3 500 000 common shares with a par value of \$100 each		
Issued and paid:		
3 419 480 common shares	<u>\$341 948 000</u>	<u>\$341 948 000</u>

10. COMMITMENTS

As at March 31, 2004, the Société's commitments to companies included in the portfolio were as follows:

Common shares	\$2 729 417
Preferred shares	8 521 158
Limited partnership units	26 478 830
Loans	<u>2 482 556</u>
	<u><u>\$40 211 961</u></u>

11. RELATED PARTY TRANSACTIONS

The Société is related to all government departments and special funds, as well as to all agencies and companies that the Government of Québec controls directly or indirectly or over which it exercises joint control or significant influence. The Société has not entered into any business transactions with these related parties other than those in the normal course of operations and according to standard commercial terms. These transactions are not disclosed separately in the financial statements.

12. FINANCIAL INSTRUMENTS**Fair value**

The fair value of short-term financial instruments approximates their carrying amount, given their short-term maturity.

The fair value of long-term financial instruments has been determined internally using valuation methods used in venture capital markets.

Under these methods, common shares of private companies are valued at acquisition cost, unless a tangible, quantifiable event with a significant impact on the value of the companies substantiates an increase or a decrease in value. However, if the fair value of these instruments remains at acquisition cost for over 36 months due to the absence of such events, it will be reassessed extensively.

For the valuation of public companies with a volume of stock market transactions, the market value is the lower of the value established by the average closing price over a one-month period and the closing price at the valuation date. A marketability discount rate may be applied based on the volume traded to reflect the time required to sell the shares on the public market.

Fixed-income investments are valued by discounting cash flows when the rate of return is lower than the discount rate. If the rate of return is higher, the fair value remains at acquisition cost, unless a tangible event substantiates a write-down in value.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2004**12. FINANCIAL INSTRUMENTS (cont'd)****Fair value (cont'd)**

	2004		
	% Book value	Book value	Fair value
Common shares of private companies [*]	18.6	\$28 550 850	\$22 135 858
Common shares of public companies	15.7	24 095 513	33 731 839
Preferred shares [*]	31.5	48 237 045	43 170 429
Limited partnership units [*]	17.1	26 247 020	17 435 793
Loans	17.1	26 139 813	27 519 314
Warrants	0.0	7 500	546 680
	<u>100.0</u>	<u>\$153 277 741</u>	<u>\$144 539 913</u>

	2003		
	% Book value	Book value	Fair value
Common shares of private companies	29.0	\$50 704 197	\$46 445 551
Common shares of public companies	14.1	24 583 060	20 215 931
Preferred shares	29.6	51 786 532	50 622 029
Limited partnership units	13.5	23 596 418	18 778 328
Loans	12.0	21 050 469	20 734 931
Investments in trust	1.8	3 140 817	3 599 346
Warrants	0.0		231 131
	<u>100.0</u>	<u>\$174 861 493</u>	<u>\$160 627 247</u>

* The fair value of common shares of private companies, preferred shares and limited partnership units are lower than their carrying amount. However, no provision has been made for these differences, since the Société expects to recover their full carrying amount. Evidence in support of this expectation includes, notably, agreements in principal, business plans as well as estimates of cash flows.

Credit risk

The Société is exposed to credit risk related to the receipt of accounts receivable and the repayment of loans it grants companies in its portfolio. As a result, the Société reviews its receivables on an ongoing basis and, if applicable, records allowances for receivables and loan impairment. These assets are presented at their book value in the balance sheet

Material risk

The Société is exposed to economic conditions affecting the sectors in which it is involved. The total market value of the portfolio is allocated among the following three sectors:

Health Sciences:	42% (2003: 39%)
Advanced Technologies and Telecommunications:	29% (2003: 36%)
Information Technologies:	29% (2003: 25%)

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2004**12. FINANCIAL INSTRUMENTS (cont'd)****Interest rate risk**

The Société is exposed to interest rate risk related to movements in interest rates, which could have an impact on the cash flows generated by floating-rate loans.

This risk also exists in the calculation of the fair market value of the aggregate loans, which is done by discounting cash flows based on interest rates that could fluctuate according to changes in markets.

The level of risk varies based on:

- volatility of market interest rates;
- percentage of the total portfolio invested in loans;
- percentage of the loan portfolio invested in floating-rate loans.

The fair value of loans represents 19.1% of the total fair market value of the portfolio. Floating-rate loans represent 26.4% of the book value of the loans in the portfolio and 4.5% of the book value of the total portfolio.

	2004				Fair value
	Book value				
	Without interest	Floating rate	Fixed rate until maturity of investment	Total	Total
Convertible loans	\$440 000	\$50 000	\$15 750 443	\$16 240 443	\$17 803 753
Non-convertible loans	900 000	6 875 244	2 124 126	9 899 370	9 715 561
	<u>\$1 340 000</u>	<u>\$6 925 244</u>	<u>\$17 874 569</u>	<u>\$26 139 813</u>	<u>\$27 519 314</u>

Average effective interest rate: 10.6%

In the opinion of management, there is no material risk associated with the investments that is not recorded as at March 31, 2004.

13. INVESTING ACTIVITIES

Cash flows related to investment activities include non-cash items related to operations, specifically for disposals of investments, whereby shares were received for a total consideration of \$5 712 150. These transactions result in a reduction of investments and of proceeds on disposals for the year, from \$39 609 861 to \$33 897 711 and from \$19 240 796 to \$13 528 646 respectively.

14. CASH AND CASH EQUIVALENTS

	2004	2003
Cash	\$280 676	\$1 204 752
Temporary investments	36 997 399	56 444 481
	<u>\$37 278 075</u>	<u>\$57 649 233</u>

15. SUBSEQUENT EVENT

On April 6, 2004, the Economic and Regional Development Minister announced the Québec government's decision to privatize Société Innovatech du Grand Montréal through a call for tenders, in which investors will be invited to bid on the portfolio. The Société is not in a position to determine the impact of privatization on future earnings.

16. COMPARATIVE FIGURES

Certain figures for 2003 have been reclassified in order to conform with the current year's presentation.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL**MANAGEMENT'S REPORT**

The financial statements of Société Innovatech du Grand Montréal have been drawn up by management, which is responsible for their preparation and presentation, including significant estimates and judgments. This responsibility includes choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. The financial information presented elsewhere in this Annual Report is consistent with that shown in the financial statements.

In assuming its responsibility, management maintains the necessary accounting and internal control systems designed to provide reasonable assurance that assets are safeguarded, transactions are recorded in an appropriate and timely manner and are duly approved, and reliable financial statements are prepared.

The Corporation acknowledges that it is responsible for managing its affairs in accordance with its governing legislation and regulations.

The Board of Directors oversees the manner in which management assumes its responsibilities with respect to financial information and has approved the financial statements. It is assisted by the Audit Committee, whose members are not members of management. The Committee meets with management and the auditor, reviews the financial statements and recommends their approval by the Board of Directors.

The Auditor General of Québec has audited the financial statements of the Corporation in accordance with Canadian generally accepted auditing standards. Her report describes the nature and scope of the audit and gives her opinion thereon. The Auditor General may meet freely with the Audit Committee to discuss any matter related to this audit.

Hubert Manseau
President and Chief Executive Officer

Montréal, May 20, 2004

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of Société Innovatech du Grand Montréal as at March 31, 2004 and the statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Interim Auditor General of Québec

Québec City, May 20, 2004

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC
(R.S.Q. c. S-17.2.2)

INCOME
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Investment income	\$1 707 956	\$1 526 737
Interest on bank balance and short-term investment	86 164	131 844
Management fees	73 706	158 875
Other	<u>14 765</u>	<u>14 765</u>
	 1 867 826	 1 832 221
EXPENDITURE		
Operating expenses:		
Salaries and fringe benefits	1 013 100	937 679
Professional and contractual services	133 238	168 523
Rent, taxes and insurance	122 278	110 772
Travelling and business development	101 185	95 736
Office expenses	59 132	90 052
Advertising and promotion	23 888	50 372
Telephone and messenger services	19 161	14 506
Training	18 435	8 742
Bank charges	1 794	1 615
Depreciation of fixed assets	<u>28 421</u>	<u>34 848</u>
	 1 520 632	 1 512 845
GAIN BEFORE FEES LINKED TO INVESTMENTS	347 194	319 376
Loss on disposal of investments	1 628 000	
Exchange loss on investments		166 875
Doubtful accounts	1 255 201	556 895
Doubtful loans	5 886 637	2 458 880
Permanent decline in value on stock investments	<u>4 484 688</u>	<u>8 034 933</u>
	<u>13 254 526</u>	<u>11 217 583</u>
NET LOSS	<u>\$(12 907 332)</u>	<u>\$(10 898 207)</u>

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC**CONTRIBUTED SURPLUS AND DEFICIT**
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
CONTRIBUTED SURPLUS		
Opening balance	\$1 385 130	\$1 385 130
Transfer to deficit (Note 8)	<u>(1 385 130)</u>	
CLOSING BALANCE	<u><u> </u></u>	<u><u>\$1 385 130</u></u>
 DEFICIT		
Opening balance	\$(19 455 814)	\$(8 557 607)
Transfer from contributed surplus (Note 8)	<u>1 385 130</u> <u>(18 070 684)</u>	<u>(8 557 607)</u>
Net loss	<u>(12 907 332)</u>	<u>(10 898 207)</u>
CLOSING BALANCE	<u><u>\$(30 978 016)</u></u>	<u><u>\$(19 455 814)</u></u>

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC**BALANCE SHEET**
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$2 281 519	\$4 980 497
Short-term investment (Note 3)	502 238	
Accounts receivable (Note 4)	662 793	1 133 482
Prepaid expenses	<u>19 843</u>	<u>24 692</u>
	3 466 393	6 138 671
Investments (Notes 5 and 13)	17 633 236	26 806 644
Fixed assets (Note 6)	<u>42 041</u>	<u>61 634</u>
	<u><u>\$21 141 670</u></u>	<u><u>\$33 006 949</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	<u>\$118 886</u>	<u>\$76 833</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 7)	52 000 800	51 000 800
Contributed surplus		1 385 130
Deficit	<u>(30 978 016)</u>	<u>(19 455 814)</u>
	<u>21 022 784</u>	<u>32 930 116</u>
	<u><u>\$21 141 670</u></u>	<u><u>\$33 006 949</u></u>
COMMITMENTS (Note 11)		
CONTINGENCIES (Note 12)		

On behalf of the Board of Directors,
 Pierre Beaudoin
 Daniel Poisson

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

CASH FLOW
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Net loss	\$(12 907 332)	\$(10 898 207)
Adjustments for:		
Amortization of fixed assets	28 421	34 848
Capitalized interest on investments	(483 512)	(80 558)
Exchange loss on investments		166 875
Doubtful loans	5 886 637	2 458 880
Permanent decline in value on stock investments	4 484 688	8 034 933
Loss on disposal of investments (Note 9)	1 628 000	
	<u>(1 363 098)</u>	<u>(283 229)</u>
Changes in non-cash items related to operations:		
Change in debtors	470 689	(567 754)
Change in prepaid costs	4 849	(5 480)
Variation in creditors and accrued costs	42 053	16 452
	<u>(845 507)</u>	<u>(840 011)</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(8 828)	(32 297)
Acquisition of investments (Note 9)	(3 528 416)	(10 854 114)
Recovery of loans and debentures	500 000	
Proceeds from disposal of investments (Note 9)	686 011	152 032
	<u>(2 351 233)</u>	<u>(10 734 379)</u>
FINANCING ACTIVITIES		
Cash flows from:		
Capital stock issue	1 000 000	11 000 000
	<u>1 000 000</u>	<u>11 000 000</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(2 196 740)	(574 390)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4 980 497</u>	<u>5 554 887</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 14)	<u><u>\$2 783 757</u></u>	<u><u>\$4 980 497</u></u>

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBECNOTES TO FINANCIAL STATEMENTS
March 31, 2004**1. CONSTITUTION AND PURPOSE**

The Société Innovatech du sud du Québec is a legal person established in the public interest under Chapter 19 of the 1995 statutes and continued as a corporation through its governing statute, i.e. the Act respecting Société Innovatech du sud du Québec (R.S.Q., c. S-17.2.2). The Société's mission is to promote and support initiatives likely to increase the capacity for technical innovation on the territory described in Schedule A of its incorporating Act, namely, all territories of the municipal agencies comprising the south-western portion of the province of Québec, and, thereby, to enhance Québec's competitiveness and economic growth, while ensuring a rate of return enabling it to continue its activities.

The Société defines itself as a venture capital agency. In other words, its investment commitments take the form of leveraged investments in companies with strong growth potential.

The Société is not subject to income tax under federal and provincial income tax legislation.

As a follow-up to the 2004-2005 Budget Speech by the Québec Minister of Finance delivered on March 30, 2004, the Minister of Economic and Regional Development and Research indicated, on April 6, 2004 that the Société would be changed to a limited partnership with mixed public and private funding.

2. ACCOUNTING POLICIES

The financial statements of the Société were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Short-term investments

Short-term investments are recorded at cost or market value, whichever is less.

Investments

Investments are recorded at cost after deducting any permanent decline in value or allowance for doubtful loans, as the case may be. Some loans include capitalized interest where provided for by agreement.

Allowance for doubtful loans

When it is established that there are risks regarding loan recovery, their book value is adjusted to their estimated realizable value. When debts are defined doubtful, their book value is adjusted to their estimated realizable amount. When the amounts or the moment future cash flows will be realized cannot be estimated with reasonable accuracy, the estimated realizable amounts are measured according to the market prices observable for these loans or according to management's judgement.

Cash flows

The Société presents as cash and cash equivalents, bank balances and short-term investments that are convertible into cash in the short term and whose value is unlikely to change.

Fixed assets

Fixed assets are recorded at cost and depreciated over their estimated useful lives on a straight-line basis at the following rates:

Furniture and equipment	20%
Computer equipment and material	20% and 33%
Leasehold improvements	20% or the remainder of the lease

3. SHORT-TERM INVESTMENT

Some of the Société's liquid assets have been invested in a common cash flow management fund, a low-risk liquid investment vehicle.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**4. ACCOUNTS RECEIVABLE**

	2004	2003
Accrued interest on investment	\$1 045 885	\$1 671 738
Allowance for doubtful accounts	(450 101)	(601 909)
	595 784	1 069 829
Other	67 009	63 653
	<u>\$662 793</u>	<u>\$1 133 482</u>

5. INVESTMENTS

	2004	2003
Common shares		
Private corporations	\$4 921 072	\$12 108 903
Public corporations (stock market value of \$3 651 328; \$1 315 000 in 2003)	2 658 873	1 500 000
Securities convertible to shares		
Preferred shares		
Redeemable	967 464	967 464
Non-redeemable	6 976 759	8 191 862
Debentures and loans		
maturing between 2005 to 2008	3 275 709	8 103 709
no maturity date	500 000	500 000
Non-convertible securities		
Preferred shares		
Redeemable	16 394	566 369
Non-redeemable	177 138	495 558
Debentures and loans		
maturing between 2005 to 2010	830 000	2 275 000
Shares in a limited partnership	33 805	
Doubtful loans		
Debentures and loans		
Convertible to shares	4 176 475	3 935 500
Non-convertible		1 070 000
	<u>24 533 689</u>	<u>39 714 365</u>
Less:		
Unrealized exchange loss on investments		166 875
Allowance for doubtful loans		
Debentures and loans		
Convertible to shares	2 547 301	2 685 913
Non-convertible		320 000
Permanent decline in value on share investments	<u>4 353 152</u>	<u>9 734 933</u>
	<u>\$17 633 236</u>	<u>\$26 806 644</u>

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**6. FIXED ASSETS**

	2004		2003
	Cost	Accumulated depreciation	Net
Furniture and equipment	\$37 816	\$21 865	\$15 951
Computer equipment and material	45 181	35 180	10 001
Leasehold improvements	49 178	33 089	16 089
	<u>\$132 175</u>	<u>\$90 134</u>	<u>\$42 041</u>
			<u>\$61 634</u>

7. CAPITAL STOCK

The Act respecting the Société Innovatech du Sud du Québec is notably designed to enable the Société to survive and be endowed with an authorized partnership fund of \$100 000 000.

Shares in the partnership fund of the Société belong to the public domain and are allocated to the Minister of Finance.

	2004	2003
Authorized:		
1 000 000 common shares with a par value of \$100 each		
Issued and paid:		
520 008 common shares (510 008 shares in 2003)	<u>\$52 000 800</u>	<u>\$51 000 800</u>

During the fiscal year, the Société issued 10 000 common shares for a cash consideration of \$1 000 000 (2003: 110 000 common shares for an amount of \$11 000 000).

8. CONTRIBUTED SURPLUS

On April 21, 2003, the contributed surplus was used to reduce the deficit, with the consent of the sole shareholder, the Ministère des Finances du Québec.

9. INVESTMENT ACTIVITIES

	2004
Acquisition of investments	\$10 050 122
Non-monetary transactions	<u>(6 521 706)</u>
Cash flows – Acquisition of investments	<u>\$3 528 416</u>
Proceeds from the disposal of investments	\$7 207 717
Non-monetary transactions	<u>(6 521 706)</u>
Cash flows – Disposal of investments	<u>\$686 011</u>
Gain on disposal of investments	\$(32 268)
Non-monetary transactions	<u>1 660 268</u>
Cash flows – Loss on disposal of investments	<u>\$1 628 000</u>

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

10. RELATED PARTY TRANSACTIONS

The Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

11. COMMITMENTS

As at March 31 2004, the Société's commitments with respect to financial support for initiatives are of \$6 066 738 (\$7 538 218 as at March 31, 2003). These commitments represent the investments authorized by the Société's board of directors, which had not been disbursed at March 31, 2004. Following certain events, these amounts might not be paid out.

12. CONTINGENCIES

There is currently a lawsuit against the Société. In the latter's opinion, the outcome cannot significantly influence its financial position or its operating results.

In the sale of an investment, the Société agreed to act as guarantor for potential claims against the purchaser for a maximum of \$200 000 regarding a period ending in September 2006. The probability that the Société will have to assume this responsibility is difficult to determine.

13. FINANCIAL INSTRUMENTS**Fair value**

The fair value of short-term financial instruments is equal to their book value, given that they will mature in the short term.

The fair value of long-term financial instruments was determined internally using the valuation methods used in venture capital markets.

These methods provide for the common shares of private capital corporations being presented at acquisition cost unless a concrete, quantifiable event with a significant impact on the corporation's value justifies an increase or decrease in value. However, if these instruments remain at acquisition cost for a period exceeding 36 months due to absence of events, they will undergo in-depth valuation.

For the valuation of public corporations with a volume of transactions on the stock market, the fair value corresponds to the lesser of the average closing price over a one-month period or the closing price the date of the valuation. A liquidity discount rate may be applied depending on the volume transacted in order to reflect the time during which shares are sold on the public market.

With regard to fixed income securities, the method discounts expected future cash flows only in those cases where the rate of return is lower than the discount rate. If the rate of return is higher, the fair value remains the acquisition cost unless a concrete event justifies a drop in value.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**13. FINANCIAL INSTRUMENTS (cont'd)****Fair value (cont'd)**

	2004			2003		
	%	Book value	Fair value	%	Book value	Fair value
Investments:						
Common shares	26.0	\$4 585 679	\$6 828 582	28.0	\$7 511 999	\$7 523 738
Securities convertible to common shares						
Preferred shares *	37.8	6 666 917	6 666 917	22.7	6 071 272	5 971 457
Debentures and loans	30.7	5 404 883	5 404 883	36.1	9 686 421	9 686 421
Securities not convertible to common shares						
Preferred shares	0.6	111 952	111 952	1.9	511 952	511 952
Debentures and loans	4.7	830 000	830 000	11.3	3 025 000	3 025 000
Shares in a limited partnership	0.2	33 805	33 805			
	<u>100.0</u>	<u>\$17 633 236</u>	<u>\$19 876 139</u>	<u>100.0</u>	<u>\$26 806 644</u>	<u>\$26 718 568</u>

* In 2003, the fair value of preferred shares that are convertible into common shares was lower than their book value. However, no provision had been made for this shortfall since the Société foresees recovering their full book value.

Credit risk

The Société is exposed to the economic conditions affecting the sectors in which it carries out its activities. At March 31, 2004, investments fall into the following sectors:

	2004	2003
Biotechnologies	41%	44%
Information technologies	47%	37%
Industrial technologies	12%	19%

The Société evaluates its investments on an ongoing basis throughout the fiscal year. It establishes its decreases in long-term value based on the risk the enterprises represent. According to management, there was no significant unposted risk at March 31, 2004. Further, the provisions and decreases in long-term value posted at March 31, 2004 are representative of the situation of the enterprises in question.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

13. FINANCIAL INSTRUMENTS (cont'd)
Interest-rate risk

Interest rates on investments and the inherent risk to which the Société is exposed regarding interest rates at March 31, 2004 are summarized below:

	Convertible debentures	Non convertible loans	Total
Fixed rates:			
Between 8 and 9%	\$1 085 709		\$1 085 709
10 and 11%	885 009	\$550 000	1 435 009
12 and 13%	1 704 686		1 704 686
14 and 15%	4 276 780	150 000	4 426 780
16% and more		130 000	130 000
	<u>\$7 952 184</u>	<u>\$830 000</u>	<u>\$8 782 184</u>

Average effective interest rate: 12.76%.

14. CASH AND CASH EQUIVALENTS

	2004	2003
Cash on hand	\$2 281 519	\$4 980 497
Short-term investment	502 238	
	<u>\$2 783 757</u>	<u>\$4 980 497</u>

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société Innovatech du sud du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

The President and Chief Executive Officer,
Daniel Poisson, M.B.A.

Sherbrooke, June 10, 2004

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Société Innovatech du sud du Québec as at March 31, 2004 and the statements of income, contributed surplus, deficit and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting principles from Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 10, 2004

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES
(R.S.Q., c. S-17.4)

RESULTS AND DEFICIT
For the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Investment income	\$1 826 384	\$1 723 484
Interest on demand deposits and short-term investments	125 615	278 295
Management fees	254 490	261 943
Gain on disposal of investments	4 873 119	580 990
Gain on disposal of fixed assets	1 663	
	<u>7 081 271</u>	<u>2 844 712</u>
EXPENDITURE		
Operating expenses (Note 10):		
Salaries and fringe benefits	1 360 988	1 535 083
Professional and contractual services	58 713	150 033
Rent	129 479	130 702
Advertising and promotion	74 560	157 746
Travelling and business development	59 863	122 151
Office expenses	89 572	103 628
Communications	25 094	28 527
Exchange losses	34 874	34 244
Loss on disposal of fixed assets	646	
Depreciation of fixed assets	58 125	65 921
	<u>1 891 914</u>	<u>2 328 035</u>
Contribution for Québec Biophotonique		<u>127 659</u>
Bad debts	74 999	15 950
Doubtful loans	7 963 070	1 244 293
Permanent declines in value, write-offs and losses on disposal of capital-stock investments	<u>12 988 537</u>	<u>10 028 201</u>
	<u>21 026 606</u>	<u>11 288 444</u>
	<u>22 918 520</u>	<u>13 744 138</u>
NET LOSS	15 837 249	10 899 426
DEFICIT, BEGINNING OF YEAR	<u>24 793 920</u>	<u>13 894 494</u>
DEFICIT, END OF YEAR	<u>\$40 631 169</u>	<u>\$24 793 920</u>

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHESBALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$5 004 843	\$1 755 403
Short-term investments (Note 3)	996 120	7 195 308
Accounts receivable (Note 4)	698 095	647 213
Proceeds from sales receivable	244 801	
Prepaid expenses	<u>26 463</u>	<u>58 212</u>
	6 970 322	9 656 136
Proceeds from sales receivable		75 720
Investments (Notes 6 and 12)	79 261 220	90 555 968
Fixed assets (Note 5)	<u>84 099</u>	<u>140 078</u>
	<u>\$86 315 641</u>	<u>\$100 427 902</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	<u>\$163 714</u>	<u>\$238 726</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 7)	126 783 096	124 983 096
Deficit)	<u>(40 631 169)</u>	<u>(24 793 920)</u>
	<u>86 151 927</u>	<u>100 189 176</u>
	<u>\$86 315 641</u>	<u>\$100 427 902</u>
COMMITMENTS (Note 11)		

On behalf of the Board of Directors,
Francine Bonicalzi
Francine Laurent

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

CASH FLOW
for the year ended March 31, 2004

	2004	2003
OPERATING ACTIVITIES		
Net loss	\$(15 837 249)	\$(10 899 426)
Elements not affecting cash flows:		
Depreciation of fixed assets	58 125	65 921
Capital interest on investments	(538 857)	(591 084)
Stock dividends	(49 856)	(40 000)
Permanent declines in value, write-offs and losses on disposal of capital-stock investments	12 988 537	10 028 201
Doubtful loans	7 963 070	1 244 293
Gain on disposal of investments	(4 873 119)	(580 990)
Other elements with no effect on cash flows	39 006	10 164
	(250 343)	(762 921)
Change in non-cash items linked to operations (Note 8)	(338 946)	(80 901)
Cash flows used for operating activities	(589 289)	(843 822)
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(1 129)	(79 026)
Acquisition of investments (Note 9)	(14 715 136)	(28 848 192)
Recovery of debentures, loans, refundable contributions and advances	2 591 366	1 086 341
Proceeds from disposal of shares (Note 9)	7 964 440	727 235
Cash flows used for investment activities	(4 160 459)	(27 113 642)
FINANCING ACTIVITIES		
Cash flows provided by financing activities:		
Capital stock issue	1 800 000	30 000 000
INCREASE IN CASH AND CASH EQUIVALENTS	(2 949 748)	2 042 536
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8 950 711	6 908 175
CASH AND CASH EQUIVALENTS, END OF YEAR	\$6 000 963	\$8 950 711
Cash on hand	\$5 004 843	\$1 755 403
Short-term investments	996 120	7 195 308
Cash and cash equivalents, end of year	\$6 000 963	\$8 950 711

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

The Société Innovatech Québec et Chaudière-Appalaches is a legal person established in the public interest under Chapter 80 of the 1993 statutes and continued as a corporation through its governing statute the Act respecting Société Innovatech Québec et Chaudière-Appalaches (R.S.Q., c. S-17.4). The Société's mission is to promote and support initiatives likely to increase the capacity for technical innovation on the territory defined in its incorporating Act and, thereby, to enhance Québec's competitiveness and economic growth, while ensuring a rate of return enabling it to continue its activities.

The Société defines itself as a venture capital agency. In other words, its investment commitments take the form of leveraged investments in companies with strong growth potential.

Under section 3 of its incorporating statute, the Société is an agent of the State and, consequently, is not subject to Canadian and Québec income tax.

As a follow-up to the 2004-2005 Budget Speech by the Québec Minister of Finance delivered on March 30, 2004, the Minister of Economic and Regional Development and Research indicated, on April 6, 2004 that the Société would be changed to a limited partnership with mixed public and private funding.

2. ACCOUNTING POLICIES

Use of estimates

The preparation of financial statements according to the accounting policies that are generally accepted in Canada requires the use of estimates affecting the assets and liabilities recorded, the presentation of potential assets and liabilities and the products and charges recorded. The main estimates are related to the evaluation of long-term investments and fixed assets.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances and short-term investments maturing within three-months.

Long-term investments

Long-term investments are recorded at acquisition cost. All permanent declines in value and provisions for doubtful debts are posted to reduction in acquisition costs. Some share certificates include capitalized products when this situation is stipulated by agreement.

Allowance for doubtful loans

When it is established that there are risks regarding recovery of investments, the accounting values are considered to correspond to their estimated disposable value. When the amounts and time of disposal for future cash flows cannot be estimated relatively reasonably, the estimated disposal values are measured according to the market prices observable for these investments or based on management's judgement.

Fixed assets

Fixed assets are recorded at acquisition cost and amortized over their services lives on a straight-line basis as follows:

Equipment	6 years
Data processing equipment	3 years
Leasehold improvements	4 years
Office equipment	4 years

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES
NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004
3. SHORT-TERM INVESTMENTS

	2004	2003
Banker's acceptance at 3.14%, maturing June 16, 2003		\$3 012 024
Commercial paper at 3.17%, maturing May 5, 2003		4 183 284
Banker's acceptance at 2.12%, maturing May 7, 2004	\$996 120	
	<u>\$996 120</u>	<u>\$7 195 308</u>

4. ACCOUNTS RECEIVABLE

	2004	2003
Interest receivable on long-term investments including a \$33 778 provision for doubtful debts (2003: \$30 989)	\$675 396	\$605 775
Interest receivable on short-term investments	1 790	8 384
Other	20 909	33 054
	<u>\$698 095</u>	<u>\$647 213</u>

5. FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Furniture and equipment	\$134 447	\$109 439	\$25 008	\$35 687
Data processing equipment	113 400	96 046	17 354	36 392
Leasehold improvements	143 144	106 826	36 318	58 373
Office equipment	15 004	9 585	5 419	9 626
	<u>\$405 995</u>	<u>\$321 896</u>	<u>\$84 099</u>	<u>\$140 078</u>

6. LONG-TERM INVESTMENTS

	2004	2003
Common stock:		
private corporations	\$37 681 207	\$48 059 349
public corporations	8 053 783	12 176 048
Securities convertible into common stock:		
Capital stock	31 610 402	20 926 956
Debentures and loans (Note 12c)		
maturing from 2004 to 2012	11 199 856	14 767 052
on demand	1 014 384	1 707 400
Amounts carried forward	<u>\$89 559 632</u>	<u>\$97 636 805</u>

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

6. LONG-TERM INVESTMENTS (cont'd)

	<u>2004</u>	<u>2003</u>
Amounts brought forward	\$89 559 632	\$97 636 805
Securities not convertible		
Capital stock	4 182 849	1 852 992
Debentures and loans (Note 12c)		
maturing from 2005 to 2011	1 198 698	1 375 956
on demand	540 000	965 000
Refundable contributions (Note 12c)		
maturing in 2011	1 750 000	2 000 000
no maturity date	4 825 888	4 825 888
Advances under the Research Promotion Program, no maturity date (Note 12c)	<u>1 000 028</u>	<u>2 998 467</u>
	<u>103 057 095</u>	<u>111 655 108</u>
Less:		
Allowance for doubtful loans *		
Debentures, loans and refundable contributions		
convertible	1 874 897	754 606
non convertible	3 139 378	659 530
Advances under the Research Promotion Program		1 127 872
Permanent decline in value of capital stock	<u>18 781 600</u>	<u>18 557 132</u>
	<u>23 795 875</u>	<u>21 099 140</u>
	<u>\$79 261 220</u>	<u>\$90 555 968</u>

* Doubtful debts correspond to debentures, loans, repayable contributions and advances that are subject to a partial or provision. At March 31, the cost of doubtful debts was:

	<u>2004</u>	<u>2003</u>
Debentures, loans and refundable contributions:		
convertible	\$5 163 669	\$1 764 141
non convertible	5 173 378	5 235 418
Advances under the Research Promotion Program	<u>1 127 872</u>	<u>1 127 872</u>
	<u>\$10 337 047</u>	<u>\$8 127 431</u>

7. CAPITAL STOCK

The Act respecting the Société Innovatech Québec et Chaudière-Appalaches is notably designed to enable the Société to survive and to be endowed with an authorized partnership fund of \$150 000 000.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

7. CAPITAL STOCK (cont'd)

Shares in the partnership fund of the Société belong to the public domain and are allocated to the Minister of Finance.

	<u>2004</u>	<u>2003</u>
Authorized:		
1 500 000 common shares with a par value of \$100 each		
Issued and paid:		
1 267 830 common shares (2003: 1 249 830 common shares)	<u>\$126 783 096</u>	<u>\$124 983 096</u>

During the fiscal year, the Société issued 18 000 common shares for \$1 800 000 in cash (2003: 300 000 common shares for \$30 000 000 in cash).

8. CHANGE IN NON-CASH ITEMS LINKED TO OPERATIONS

	<u>2004</u>	<u>2003</u>
Increase in accounts receivable *	\$(295 683)	\$(149 332)
Increase in prepaid expenses	31 749	(11 250)
Change in accounts payable	<u>(75 012)</u>	<u>79 681</u>
	<u><u>\$(338 946)</u></u>	<u><u>\$(80 901)</u></u>

* Including the proceeds from disposal receivable in the short term.

9. INVESTMENT ACTIVITIES

	<u>2004</u>
Acquisition of investments	\$16 428 359
Non-monetary trades	<u>(1 713 223)</u>
Cash flows - Acquisition of investments	<u>\$14 715 136</u>
Proceeds from the disposal of shares minus commission	\$9 677 663
Non-monetary trades	<u>(1 713 223)</u>
Cash flows— Proceeds from sale of shares	<u>\$7 964 440</u>

10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES
NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004
11. COMMITMENTS

As at March 31, 2004, the Société's commitments with respect to financial support for initiatives and other commitments amounted to \$10 245 604 (March 2003: \$20 664 726).

Commitments related to financial support of initiatives represent investments authorized by the Société's board of directors that had not yet been disbursed at March 31, 2004. Depending on certain events, these amounts may not be paid out.

12. FINANCIAL INSTRUMENTS
a) Fair value

The fair value of current financial instruments is equivalent to their book value given their short-term due dates. The fair value of listed shares is established based on the closing price the date of the financial statement. The fair value of other long-term financial instruments is determined internally using the valuation methods used in venture capital markets. These methods notably foresee having ordinary capital stock presented at the cost of acquisition, unless a concrete event, that is quantifiable and that has a significant impact on the value of enterprises justifies an increase or decrease in value. However, if these instruments remain at acquisition cost for a period exceeding 36 months due to absence of events, they will undergo in-depth valuation.

	2004			2003		
	%	Book value	Fair value	%	Book value	Fair value
Investments:						
Common stock	42.2	\$33 467 476	\$36 843 612	47.7	\$43 201 646	\$48 272 506
Securities convertible into common stock						
Capital stock	33.8	26 799 213	27 087 812	21.4	19 403 575	19 405 935
Debentures and loans	13.1	10 339 343	10 756 358	17.4	15 719 846	15 719 846
Securities not convertible						
Capital stock *	3.1	2 479 952	529 976	2.0	1 852 992	2 166 398
Debentures and loans	1.8	1 425 208	1 425 207	2.4	2 181 426	2 181 426
Refundable contributions *	4.7	3 750 000	3 250 000	7.0	6 325 888	6 325 888
Advances under the Research Promotion Program	1.3	1 000 028	1 000 028	2.1	1 870 595	1 870 595
	<u>100.0 %</u>	<u>\$79 261 220</u>	<u>\$80 892 993</u>	<u>100.0 %</u>	<u>\$90 555 968</u>	<u>\$95 942 594</u>

* For categories of investments whose book value is higher than their fair value, management foresees recovering their book value. To support its judgement, the important elements analyzed include, notably, agreements in principle, business plans and cash flow estimates.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**12. FINANCIAL INSTRUMENTS (cont'd)****b) Credit risk**

The Société is exposed to the economic conditions affecting the sectors in which it carried out its activities. As at March 31, 2004, the investments fall into the following three sectors:

	2004	2003
Biotechnology and life sciences	27%	27%
Information technologies and telecommunications	58%	51%
Industrial technologies	15%	22%

During the fiscal year, the Société valued its investments. It established its sustained value decreases based on the risk presented by the enterprises. According to management, there was no significant unspotted risk as at March 31, 2004. Further, the provisions and long-term value decreases recorded at March 31, 2004 are representative of the situation of the enterprises in question.

c) Interest-rate risk

The interest rates on the Société's investments and the risk to which it is exposed with regard to these interest rates are summarized in the following table:

	Interest- free	Fixed rate	** *	Total
Debenture and convertible loans in common stock maturing from 2004 to 2012 on demand		\$6 386 186 664 386		\$6 386 186 664 386
Debentures and non-convertible loans in common stock maturing from 2005 to 2011 on demand		1 151 208 240 000		1 151 208 240 000
Refundable contributions * maturing in 2011	\$1 750 000			1 750 000
Doubtful loans convertible non convertible	4 825 888	5 163 669 347 490		5 163 669 5 173 378
Advances under the Research Promotion Program **	1 000 028			1 000 028
	<u>\$7 575 916</u>	<u>\$13 952 939</u>		<u>\$21 528 855</u>

* Contributions are refundable in the form of a royalty on sales.

** In the case of technology transfers to existing or future companies, the advance is either repaid or accounted for in stock ownership according to a formula as yet to be determined.

*** Interest rates vary between 7 and 15% and, in certain cases, fees may be payable.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES**MANAGEMENT'S REPORT**

The financial statements of the Société Innovatech Québec et Chaudière-Appalaches were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. The internal audit and investigations department carries out audits periodically to ensure that the internal controls applied regularly by the Société are appropriate and consistent.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements for the fiscal year ended March 31, 2004.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Francine Laurent
President and Chief Executive Officer

Québec, May 25, 2004

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Société Innovatech Québec et Chaudière-Appalaches as at March 31, 2004 and the statements of results and deficit and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 7, 2004

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES
(R.S.Q., c. S-17.5)

RESULTS AND DEFICIT
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Gouvernement du Québec subsidy		\$700 000
Investment income	\$2 353 344	1 926 842
Gain on disposal of investments	62 295	267
Interest on short-term investments	156 418	332 334
Management fees	<u>271 046</u>	<u>196 263</u>
	<u>2 843 103</u>	<u>3 155 706</u>
EXPENDITURE		
Operating expenses:		
Salaries and fringe benefits	952 075	792 575
Professional and contractual services	116 304	268 872
Rent	46 628	44 071
Advertising and promotion	15 770	36 304
Travelling and business development	110 867	119 834
Office expenses	62 545	81 805
Communications	22 237	22 215
Depreciation of fixed assets	<u>46 937</u>	<u>45 104</u>
	<u>1 373 363</u>	<u>1 410 780</u>
Permanent decline in value of share investments	4 925 867	516 334
Doubtful loans	<u>4 860 562</u>	<u>982 683</u>
	<u>9 786 429</u>	<u>1 499 017</u>
	<u>11 159 792</u>	<u>2 909 797</u>
NET (LOSS) INCOME	(8 316 689)	245 909
RETAINED EARNINGS, BEGINNING OF YEAR	<u>992 708</u>	<u>746 799</u>
(DEFICIT) RETAINED EARNINGS, END OF YEAR	<u><u>\$(7 323 981)</u></u>	<u><u>\$992 708</u></u>

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES**BALANCE SHEET**
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$3 959 414	\$409 895
Short-term investments (Note 3)	2 319 726	8 214 028
Accounts receivable (Note 4)	427 956	413 933
Prepaid expenses	5 217	5 599
	<u>6 712 313</u>	<u>9 043 455</u>
Investments (Notes 5 and 13)	35 962 016	33 044 857
Fixed assets (Note 6)	<u>132 791</u>	<u>175 140</u>
	<u><u>\$42 807 120</u></u>	<u><u>\$42 263 452</u></u>
LIABILITIES		
Current liabilities		
Accounts payable (Note 8)	<u>\$131 101</u>	<u>\$270 744</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 9)	50 000 000	41 000 000
(Deficit) Retained earnings	<u>(7 323 981)</u>	<u>992 708</u>
	<u>42 676 019</u>	<u>41 992 708</u>
	<u><u>\$42 807 120</u></u>	<u><u>\$42 263 452</u></u>
COMMITMENTS (Note 11)		
CONTINGENCIES (Note 12)		

On behalf of the Board of Directors,
Yvon Lévesque, President
Ghislain Blanchet, President and Chief Executive Officer

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES

CASH FLOW

for the year ended March 31, 2004

	2004	2003
OPERATING ACTIVITIES		
Net (loss) income	\$(8 316 689)	\$245 909
Adjustments for:		
Depreciation of fixed assets	46 937	45 104
Capitalized interest in investments	(341 004)	(105 140)
Permanent decline in value of share investments	4 925 867	516 334
Doubtful loans	4 860 562	982 683
Gain on disposal of investments	(62 295)	(267)
	<u>1 113 378</u>	<u>1 684 623</u>
Change in non-cash items linked to operations		
Change in receivables	(14 023)	6 240
Decrease in prepaid expenses	382	3 228
Change in payables	(139 643)	176 298
	<u>(153 284)</u>	<u>185 766</u>
Cash flows provided by operating activities	<u>960 094</u>	<u>1 870 389</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(4 588)	(61 204)
Acquisition of investments	(13 901 505)	(12 240 828)
Recovery of investments	1 538 820	1 355 466
Proceeds from the disposal of investments	62 396	267
Cash flows used for investment activities	<u>(12 304 877)</u>	<u>(10 946 299)</u>
FINANCING ACTIVITIES		
Cash flows provided by financing activities:		
Capital stock issue	<u>9 000 000</u>	<u>8 000 000</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(2 344 783)	(1 075 910)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>8 623 923</u>	<u>9 699 833</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$6 279 140</u></u>	<u><u>\$8 623 923</u></u>
Cash on hand	\$3 959 414	\$409 895
Short-term investments	<u>2 319 726</u>	<u>8 214 028</u>
Cash and cash equivalents, end of year	<u><u>\$6 279 140</u></u>	<u><u>\$8 623 923</u></u>

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCESNOTES TO FINANCIAL STATEMENTS
March 31, 2004**1. CONSTITUTION AND PURPOSE**

The Société Innovatech Régions ressources is a legal person established in the public interest incorporated by the legislation governing it, i.e. the Act respecting Société Innovatech Régions ressources (R.S.Q., c. S-17.5). The Société's mission is to promote and support initiatives likely to increase the capacity for technical innovation on the territory defined in its incorporating Act and, thereby, to enhance Québec's competitiveness and economic growth, while ensuring a rate of return enabling it to continue its activities.

The Société defines itself as a venture capital agency; in other words, its investment commitments take the form of leveraged investments in companies with strong growth potential.

Under section 3 of its incorporating legislation, the Société is an agent of the State and, as such, is not subject to Québec or Canadian income tax.

As a follow-up to the 2004-2005 Budget Speech by the Québec Minister of Finance delivered on March 30, 2004, the Minister of Economic and Regional Development and Research indicated, on April 6, 2004 that the Société would be changed to a limited partnership with mixed public and private funding.

2. ACCOUNTING POLICIES

The financial statements of the Société were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Cash and cash equivalents

The Société's policy consists in presenting under cash and cash equivalents bank balances and short-term investments maturing within three months of the date they were acquired.

Short-term investments

Short-term investments are recorded at cost or market value, whichever is less.

Investments

Investments are recorded at cost after deducting any permanent decline in value or allowance for doubtful loans, as the case may be. Certain securities include the capitalized proceeds when this situation is provided for by agreement.

Allowance for doubtful loans

When it is established that there are risks regarding recovery of loans, the accounting values are considered to correspond to their estimated disposable value. When the amounts and time of disposal for future cash flows cannot be estimated relatively reasonably, the estimated disposal values are measured according to the market prices observable for these loans or based on management's judgement.

Fixed assets

Fixed assets are recorded at cost and depreciated over their useful lives on a straight-line basis:

Leasehold improvements	10 years
Furniture and equipment	6 years
Data processing equipment	3 years

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

3. SHORT-TERM INVESTMENTS

	2004	2003
Banker's acceptance 2.4%, maturing on June 18, 2004	\$2 319 726	
Banker's acceptances		\$5 225 968
Commercial paper		2 988 060
	<u>\$2 319 726</u>	<u>\$8 214 028</u>

4. RECEIVABLE

	2004	2003
Interest receivable on investments	\$883 631	\$301 865
Interest receivable on short-term investments	13 265	6 498
Other	63 619	105 570
Provision for doubtful accounts	(532 559)	
	<u>\$427 956</u>	<u>\$413 933</u>

5. INVESTMENTS

	2004	2003
Common shares:		
Private corporations	\$11 639 032	\$9 376 829
Public corporation (stock market valuation \$101 613 2003: \$101 613)	1 350 000	350 000
Securities convertible into common shares		
Preferred shares	200 000	200 000
Debentures and loans (maturing between 2004 to 2007) (Note 13c)	235 350	185 350
Securities not convertible into common shares		
Preferred shares	7 268 698	4 081 939
Debentures and loans (maturing between 2004 to 2011) (Note 13c)	19 533 889	18 472 825
Refundable contribution (maturing in 2010) (Note 13c)	1 750 000	2 000 000
Doubtful loans		
Non-convertible debentures and loans	4 860 562	982 683
	<u>46 837 531</u>	<u>35 649 626</u>
Less:		
Non-convertible debentures and loans	4 860 562	982 683
Permanent decline in value of share investments	6 014 953	1 622 086
	<u>10 875 515</u>	<u>2 604 769</u>
	<u>\$35 962 016</u>	<u>\$33 044 857</u>

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCESNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**6. FIXED ASSETS**

	2004		2003
	Cost	Accumulated depreciation	Net
Leasehold improvements	\$147 329	\$40 622	\$106 707
Furniture and equipment	49 029	25 942	23 087
Equipment and data processing equipment	93 503	90 506	2 997
	<u>\$289 861</u>	<u>\$157 070</u>	<u>\$132 791</u>
			<u>\$175 140</u>

7. BANK LOAN

A bank borrowing in the amount of \$2 000 000 was authorized at the prime rate and guaranteed by the moveable hypothec without delivery on the universality of tangible and intangible moveables, present and future where they were found. At March 31, 2004, the borrowing of this balance was zero.

8. PAYABLES

	2004	2003
Supplies and accrued costs	\$128 653	\$269 428
Owing to Société Innovatech Grand Montréal	<u>2 448</u>	<u>1 316</u>
	<u>\$131 101</u>	<u>\$270 744</u>

9. CAPITAL STOCK

The Act respecting the Société Innovatech Régions ressources is designed to enable the Société to survive and to be endowed with an authorized partnership fund of \$100 000 000.

	2004	2003
Authorized:		
1 000 000 common shares with a par value of \$100 each		
Issued and paid:		
500 000 common shares (410 000 common shares in 2003)	<u>\$50 000 000</u>	<u>\$41 000 000</u>

The shares of the Société's partnership fund belong to the State and are allocated to the Minister of Finance.

During the fiscal year, the Société issued 90 000 common shares for an amount of \$9 000 000 in cash (in 2003: 80 000 common shares for an amount of \$8 000 000 in cash).

10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Société did not carry out business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

11. COMMITMENTS

As at March 31, 2004, the Société's commitments with respect to financial support for initiatives were as follows:

	2004	2003
Common shares	\$2 774 982	\$5 574 000
Securities convertible into common shares		
Preferred shares	333 333	1 049 333
Debentures and loans	5 555 321	7 123 496
Advances under research development projects	175 000	150 000
Caution	100 000	100 000
	<u>\$8 938 636</u>	<u>\$13 996 829</u>

Commitments represent investments authorized by the Société's board of directors and not disbursed as at March 31, 2004. Due to certain circumstantial events, it might not be possible to pay out these amounts.

12. CONTINGENCIES

Legal proceedings against the Société are currently under way. In the Société's opinion, the outcome of this matter cannot have a significant influence on its financial situation or on the results of its operation.

The Société underwrote borrowings by companies in which it has invested. The Société's surety is a maximum of \$1 369 265. The probability that the Société will have to assume these responsibilities cannot be determined.

13. FINANCIAL INSTRUMENTS
a) Fair value

The fair value of current financial instruments is equivalent to their book value given their short-term due dates. The fair value of long-term financial instruments was determined internally using the valuation methods used in venture capital markets. These methods notably foresee having the common shares presented at the cost of acquisition, unless a concrete event, that is quantifiable and that has a significant impact on the value of enterprises justifies an increase or decrease in value. However, if these instruments remain at acquisition cost for a period exceeding 36 months due to absence of events, they will undergo in-depth valuation.

For fixed revenues, the method provides for discounting cash flows only when the rate of return is lower than the discount rate. If the rate of return is higher, the fair value remains the acquisition cost unless a concrete event justifies a decrease in value.

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

13. FINANCIAL INSTRUMENTS (cont'd)
a) Fair value (cont'd)

	2004			2003		
	%	Book value	Fair value	%	Book value	Fair value
Investments:						
Common shares	26.5	\$9 525 467	\$8 624 236	25.2	\$8 337 601	\$8 384 158
Securities convertible into common shares						
Debentures and loans	0.6	235 350	235 350	0.6	185 350	185 350
Preferred shares	0.6	200 000	200 000	0.6	200 000	200 000
Securities not convertible into common shares						
Debenture and loans	54.3	19 533 889	19 435 978	55.9	18 472 825	18 472 825
Preferred shares	13.1	4 717 310	3 638 267	11.6	3 849 081	3 983 054
Refundable contribution	4.9	1 750 000	1 870 570	6.1	2 000 000	2 000 000
	<u>100.0</u>	<u>\$35 962 016</u>	<u>\$34 004 401</u>	<u>100.0</u>	<u>\$33 044 857</u>	<u>\$33 225 387</u>

For categories of investments whose book value is higher than their fair value, management foresees recovering their book value. To support its judgement, the important elements analyzed include, notably, agreements in principle, business plans and cash flow estimates.

b) Credit risk

The Société is exposed to the economic conditions affecting the sectors in which it carried out its activities. Investments are as follows:

	2004	2003
Biotechnology and life sciences	11%	9%
Information technologies and telecommunications	2%	14%
Industrial technologies	87%	77%

During the fiscal year, the Société valued its investments. It established its provisions and its sustained value decreases based on the risk presented by the enterprises. According to management, there was no significant unposted risk as at March 31, 2004. Moreover, the provisions and lasting drops in value recorded at March 31, 2004 are representative of the situation of the enterprises concerned.

c) Interest-rate risk

The interest rates on the Société's investments and the risk to which it is exposed with regard to these interest rates are summarized in the following table:

	Interest-free	Fixed rate until maturity	Total
Debentures and loans convertible into common shares	\$185 350	\$50 000	\$235 350
Debentures and loans non convertible into common shares	398 500	23 995 951	24 394 451
Contribution repayable as royalties on sales	<u>1 750 000</u>		<u>1 750 000</u>
	<u>\$2 333 850</u>	<u>\$24 045 951</u>	<u>\$26 379 801</u>

- Mean effective interest rate: 11.9%.
- Interest rates vary between 6% and 16% and, in certain cases, fees may be payable.

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES**MANAGEMENT'S REPORT**

The financial statements of the Société Innovatech Régions ressources were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any element concerning his audit.

Ghislain Blanchet
President and Chief Executive Officer

Québec, June 18, 2004

AUDITOR'S REPORT

To the Minister of Finance,

I have audited the balance sheet of the Société Innovatech Régions ressources as at March 31, 2004 and the statements of results and deficit and cash flows for the period then ended. These financial statements are the responsibility of Société management. My responsibility is to express an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 15, 2004

SOCIÉTÉ NATIONALE DE L'AMIANTE
(R.S.Q., c. S-18.2)

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
INCOME		
Balancing subsidy	130	425
Interest	12	10
Reimbursement of fees following lawsuit settlement		<u>11</u>
	<u>142</u>	<u>446</u>
CHARGE		
Administrative expenses	277	268
Professional services	<u>98</u>	<u>215</u>
	<u>375</u>	<u>483</u>
LOSS BEFORE THE FOLLOWING ITEM	(233)	(37)
Loss on drop in value of investment	<u>(629)</u>	<u>(621)</u>
NET LOSS	(862)	(658)
DEFICIT, BEGINNING OF YEAR	<u>(156 184)</u>	<u>(155 526)</u>
DEFICIT, END OF YEAR	<u>(157 046)</u>	<u>(156 184)</u>

SOCIÉTÉ NATIONALE DE L'AMIANTE

CONSOLIDATED BALANCE SHEET
as at March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	169	117
Short-term investments (Note 3)	200	263
Balancing subsidy	130	425
Portion of investments feasible within one year (Note 4)	<u>850</u>	<u>805</u>
	1 349	805
Investments (Note 4)	<u> </u>	<u>1 479</u>
	<u>1 349</u>	<u>2 284</u>
 LIABILITIES		
Current liabilities		
Accounts payable	<u>26</u>	<u>99</u>
 SHAREHOLDER'S EQUITY		
Capital stock (Note 5)	158 369	158 369
Deficit	<u>(157 046)</u>	<u>(156 184)</u>
	<u>1 323</u>	<u>2 185</u>
	<u>1 349</u>	<u>2 284</u>
 CONTINGENCIES (Note 6)		

On behalf of the Board of Directors,
Benoît Cartier, Director

SOCIÉTÉ NATIONALE DE L'AMIANTE

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Net loss	(862)	(658)
Adjustments for:		
Loss on drop of value of investment	<u>629</u>	<u>621</u>
	(233)	(37)
Net change in non-liquid assets working capital items	<u>222</u>	<u>(411)</u>
	(11)	(448)
INVESTMENT ACTIVITIES		
Encashment of investment	<u></u>	<u>125</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(11)	(323)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>380</u>	<u>703</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>369</u>	<u>380</u>

The cash and cash equivalents comprise the cash on hand and short-term investments.

SOCIÉTÉ NATIONALE DE L'AMIANTE

NOTES TO FINANCIAL STATEMENTS

for the year ended March 31, 2004

(in thousands of dollars)

1. ENTERPRISE DESCRIPTION

The Société nationale de l'amiante (SNA) is a government enterprise wholly owned by the Gouvernement du Québec. It was established by the Act respecting the Société nationale de l'amiante (R.S.Q., c. S-18.2) and holds investments in an inoperative enterprise.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been drawn up according to the accounting principles that are generally recognized in Canada and reflect the following main accounting policies:

Consolidation perimeter

The consolidated financial statements group together the accounts of the Société nationale de l'amiante and of its subsidiary Mines SNA (held 100%).

Continuing operations

The financial statements of the Société were prepared using accounting principles applicable to an operative enterprise.

Given that the Société has posted an operating loss for the past few years, it would be impossible for it to meet its financial obligations should the Gouvernement du Québec decide to withdraw its financial support.

If the continuing operations assumption is not suitable for the present financial statements, adjustments will have to be made to the book value assigned to the assets and liabilities, revenue and expenditure shown and classifications used in the balance sheet.

Allowance for loss on investments

The allowance for loss on investments is established on the basis of individual investments and is calculated according to the terms of the contracts between the parties.

Government subsidies

The Gouvernement du Québec provides financial assistance to enable the Société to meet its financial obligations and those of its subsidiary.

The amount of this financial assistance is entered under "deficiency grant" in the statement of income and is used to finance the Société's operating loss.

Use of estimates

Preparation of financial statements in keeping with the accounting principles generally accepted in Canada requires management to use estimates and assumptions that affect the assets and liabilities posted, presentation of potential assets and liabilities posted at the date of the financial statements, and proceeds and charges posted during the fiscal year. The real results might differ from the estimates.

Benefits tax

Since all of the Société's shares are held by the Gouvernement du Québec, the Société nationale de l'amiante is exempt from benefits tax, as is its wholly-owned subsidiary.

Cash and cash equivalents

The Société's cash and cash equivalents comprise cash and easily convertible financial instruments maturing within three months or less.

SOCIÉTÉ NATIONALE DE L'AMIANTE

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2004
(in thousands of dollars)

3. SHORT-TERM INVESTMENTS

	<u>2004</u>	<u>2003</u>
Investment (2.40% in 2003)		63
Commercial paper, bearing interest at rate of 1.6% (2.45% in 2003), maturing on April 7, 2004	200	100
Promissory note, bearing interest at rate of 2.50% maturing during the fiscal year		<u>100</u>
	<u>200</u>	<u>263</u>

4. INVESTMENTS

	<u>2004</u>	<u>2003</u>
Other investments		
Note receivable, receivable in April 2004	850	2 100
Preferred Category C shares in Les Technologies Fibrox Ltée	<u>500</u>	<u>500</u>
	1 350	2 600
Provision for lasting drop in value of tickets receivable and of preferred shares	<u>500</u>	<u>1 121</u>
	850	1 479
Portion that is feasible within one year	<u>850</u>	
		<u>1 479</u>

5. CAPITAL STOCK

Authorized

250 000 common shares with a par value of \$1 000 each

	<u>2004</u>	<u>2003</u>
Issued		
158 369 common shares	<u>158 369</u>	<u>158 369</u>

In accordance with the Act respecting the Société nationale de l'amiante, all of the Société's shares are part of the public domain and are assigned to the Minister of Finance of the Gouvernement du Québec.

6. CONTINGENCIES**Cases before the securities commissions**

Complaints were filed with the Ontario Securities Commission and the Commission des valeurs mobilières du Québec by a committee comprised of a number of minority shareholders of Asbestos Corporation Limited. The complaints allege that the SNA should have offered to buy all Asbestos Corporation Limited shareholders' stock on terms similar to those offered to General Dynamics Corporation (GD) for the purchase of shares in the private enterprise Mines SNA Inc., which controlled Asbestos Corporation Limited.

SOCIÉTÉ NATIONALE DE L'AMIANTE

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2004
(in thousands of dollars)

6. CONTINGENCIES (cont'd)

Cases before the securities commissions (cont'd)

In a decision handed down on June 13, 2003, the Commission des valeurs mobilières du Québec concluded that there was no evidence showing that the SNA had failed to respect a provision of the Québec Securities Act and its regulations and that, consequently, there was no reason to grant the request of the minority shareholders.

The minority shareholders appealed this decision before the Court of Québec, which will hear it in June 2004.

In July 1994, the Ontario Securities Commission rejected the claim filed by the minority shareholders of Asbestos Corporation Limited. This decision was appealed before various courts and finally in a decision handed down on June 7, 2001; the Supreme Court dismissed the minority shareholders' appeal and restored the Ontario Securities Commission's decision, thereby closing the file.

Class action

In May 1988, the Société and several other respondents were summoned before the Supreme Court of Ontario by a number of minority shareholders in Asbestos Corporation Limited with regard to damages and the redemption of their shares on terms similar to those offered to General Dynamics Corporation for the purchase of shares in Mines SNA Inc. This proceeding, which was still in the preliminary stage and had been inactive since 1988, was revived in 2003 by minority shareholders.

Attorneys SNA informed the Court of their intention to present preliminary means to try to have the proceeding refused at this stage.

Petition before the Québec Superior Court

In June 1995, the minority shareholders in Asbestos Corporation Limited filed a petition with the Québec Superior Court under section 241 of the Canada Business Corporations Act. They are claiming redress for the alleged oppression suffered at the hands of the Société nationale de l'amiante, in particular, which is a respondent in the case.

In response to a motion for dismissal filed by the Société, the court granted a suspension on the shareholders' petition until a final judgement is rendered in the other proceedings before the Québec and Ontario securities commissions (*supra*).

7. FINANCIAL INSTRUMENTS

The fair value of cash, short-term investments, accounts receivable, the balancing subsidy receivable, accounts payable and the advance from a subsidiary correspond approximately to their book value given that they mature in the short term.

The fair value of preferred shares corresponds to their book value, namely zero value.

SOCIÉTÉ NATIONALE DE L'AMIANTE

AUDITORS' REPORT

To the Minister responsible for the
Société nationale de l'amiante

We have audited the balance sheets of the Société nationale de l'amiante as at March 31, 2004 and the consolidated statements of income and deficit and cash flows for the year then ended. These financial statements are the responsibility of Société management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.
Chartered Accountants

April 14, 2004

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX
(R.S.Q., c. S-18.2.1)

REVENUE AND EXPENSES
for the year ended March 31, 2004
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
REVENUE		
Management fees (Note 3)	512	1 180
Financial revenue	<u>195 485</u>	<u>220 843</u>
	<u>195 997</u>	<u>222 023</u>
EXPENSES		
Salaries and social benefits (Notes 4 and 12)	261	713
Transportation and communications	33	61
Information system	73	55
Professional, administrative and other services	153	204
Repairs and maintenance		1
Rental	35	29
Supplies	9	11
Financial expenses (Note 5)	195 433	220 775
Case settlement		<u>194</u>
	195 997	222 043
Expenses charged to receivables		<u>(20)</u>
	<u>195 997</u>	<u>222 023</u>

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

BALANCE SHEET
as at March 31, 2004
(in thousands of dollars)

	2004	2003
ASSETS		
Current assets		
Cash	96	1 349
Accounts receivable	66 475	67 979
Receivables from the gouvernement du Québec (Note 6)	56 836	144 846
Receivables from the municipalities (Note 6)	23 640	20 062
Prepaid expenses	66	42
	<u>147 113</u>	<u>234 278</u>
Long-term receivables from the gouvernement du Québec (Note 6)	2 562 267	2 618 942
Long-term receivables from the municipalities (Note 6)	257 922	287 492
Unbilled completed works	<u>2 695</u>	<u>3 842</u>
	<u>2 969 997</u>	<u>3 144 554</u>
LIABILITIES		
Current liabilities		
Account payable and accrued liabilities (Note 5)	70 032	70 071
Current portion of long-term debt (Note 8)	80 475	164 908
	<u>150 507</u>	<u>234 979</u>
Accounts payable and accrued liabilities on completed works	2 574	3 717
Long-term debt (Note 8)	2 814 173	2 901 740
Deferred revenue	1 366	1 750
Other liabilities items	<u>1 377</u>	<u>2 368</u>
	<u>2 969 997</u>	<u>3 144 554</u>

COMMITMENTS AND CONTINGENCIES (Notes 9 and 10)

On behalf of the Board,
Maurice Masse
Marc Pinsonnault

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX
CASH FLOWS
 for the year ended March 31, 2004
 (in thousands of dollars)

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Cash inflow – management fees	128	212
Cash inflow – subsidy receivable from the gouvernement du Québec		1 720
Cash inflow – financial revenue	202 547	237 273
Cash outflow – interest paid	(197 952)	(238 778)
Cash outflow – other financial expenses	(4 315)	(6 310)
Cash outflow –administration expenses	<u>(318)</u>	<u>(946)</u>
Cash flows related to operating activities	<u>90</u>	<u>(6 829)</u>
INVESTING ACTIVITIES		
Amount charged to long-term receivables and unbilled completed works	(278)	(3 198)
Receipts on long-term receivables	<u>172 102</u>	<u>122 433</u>
Cash flows related to investing activities	<u>171 824</u>	<u>119 235</u>
FINANCING ACTIVITIES		
Repayment of accounts payable and accrued liabilities on completed works	(1 143)	(1 734)
Long-term debt	567 845	354 877
Repayment of long-term debt	<u>(739 869)</u>	<u>(467 673)</u>
Cash flows related to financing activities	<u>(173 167)</u>	<u>(114 530)</u>
DECREASE IN CASH	(1 253)	(2 124)
CASH AT BEGINNING	<u>1 349</u>	<u>3 473</u>
CASH AT THE END	<u><u>96</u></u>	<u><u>1 349</u></u>

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**NOTES TO FINANCIAL STATEMENTS**

March 31, 2004

(in thousands of dollars)

1. IDENTIFICATION, OBJECTIVES AND FINANCING

The Société québécoise d'assainissement des eaux, a corporation within the meaning of the Civil Code constituted by special act (L.R.Q., chapter S-18.2.1) has among others the following objectives:

- to design, construct, improve, enlarge, put in operation, finance or operate water purification works for the needs of municipalities or to carry out rehabilitation works on municipal sewerage systems;
- to carry out studies in respect to the rehabilitation of municipal sewerage systems;
- to carry out other studies in matters of sewerage and water purification;
- to finance development works on the beds, including the banks or shores and the land bordering thereon, of lakes or watercourses;
- to finance works which control the water-level of lakes or watercourses;
- to design, construct, improve, enlarge, put in operation or finance sewerage or watery systems or drinking water treatment installations for the needs of the territory chosen by the Government and located on the North Coast of the Gulf of St. Lawrence;
- to export its expertise in water resources engineering acquired in Québec, mainly by promoting, providing goods and services, and by encouraging the development of the industrial and technological potential of Québec in this field;
- to act as an adviser to municipalities in the construction and operation of water purification works;
- to provide technical and professional management assistance to municipalities for the construction of water purification works;
- to develop projects for the transfer and dissemination of new technologies relating to water purification and drinking water treatment and, with the authorization of the ministère des Affaires municipales, du Sport et du Loisir, to carry out those projects.

The Société québécoise d'assainissement des eaux is a governmental corporation which is non-profit oriented.

The Société bills the gouvernement du Québec on behalf of municipalities and the municipalities for studies and water purification and watery and sewerage works it executes and for the financing of some works realized by municipalities.

The Société retains ownership of the works until they are handed over to the municipalities. These works are handed over when definitive delivery procedures of treatment plants are completed even though other costs may be incurred.

As of September 2004, the management of the Société will be carried out from the offices of the ministère des Affaires municipales, du Sport et du Loisir.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Société have been prepared by management using the generally accepted accounting principles in Canada. These statements include amounts based on best judgements and estimates.

Management fees

Management fees are established based on a percentage of the cost of water purification, sewerage, watery and other works.

- Billing

Management fees are billed in relation to the execution of the Société's mandate which covers the period of works completion as well as the period of debt management and financing related to these works.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)

Management fees (cont'd)

- Billing (cont'd)

Management fee revenues for water purification works are billed as follows:

- In relation to expenses incurred for studies;
- According to a uniform allocation over the estimated completion period (term basis) for the works.

For other works, including watery and sewerage, management fee revenues are billed based on a percentage of the cost of works completed.

- Deferred revenue

The Société is unable to accurately establish management fees earned yearly over the complete duration of its mandate.

Therefore, the Société transfers to deferred revenue the annual excess of revenue over expenses or, deducts from deferred revenue an amount equal to the annual excess of expenses over revenue in order to cover this deficiency.

Long-term receivables

Long-term receivables, to be collected from the gouvernement du Québec on behalf of municipalities and from municipalities, include expenses charged to water purification, watery and sewerage works, and the financing of the watercourse bank development works and other works realized by municipalities, net of reimbursements received.

Other liabilities items

Costs related to the hedge of the foreign exchange risk on long-term debts issued in foreign currencies as well as long-term debt discount and issue expenses are deferred. These items are amortized according to the effective rate over the term of the loan.

Sinking fund for the long-term debt

The Société created a fund from the period remittals of principal from the municipalities for the reimbursement of the long-term debt.

The sums accumulated are earning interest; they are used to temporarily reduce the bank loans.

Currency conversion

The long-term debts issued in foreign currency are converted at the rate of the financial instruments for hedging a foreign exchange risk.

Pension plan

The accounting of the defined contribution plan is applied to governmental multiemployer defined benefit plan, taking into account that the Société doesn't have enough information to apply the accounting of the regimes with definite services

3. MANAGEMENT FEES

	2004	2003
Management fees billed	128	212
Transfer to deferred revenue	384	968
	<u>512</u>	<u>1 180</u>

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2004

(in thousands of dollars)

4. SALARIES AND SOCIAL BENEFITS

No amount was paid by the Société in this fiscal year for severance pay. In the fiscal year 2003, an amount of \$311 274 was paid by the Société.

In addition, wages paid to two employees of ministère des Affaires municipales, du Sport et du Loisir within the context of gratuitous service to the Société, are not reflected in the value of this item.

5. FINANCIAL EXPENSES

	2004	2003
Interest on bonds and notes payable	185 362	206 650
Amortization of gouvernement du Québec long-term debt (premium) discount	(967)	(563)
Cost of debt guaranteed by the government	3 190	4 315
Interest on bank loans	7 848	10 373
	<u>195 433</u>	<u>220 775</u>

The interest paid for the fiscal year relative to the loans contracted with the financing fund of the gouvernement du Québec amount for \$119 311 150 (2003: \$114 397 039). As at March 31, 2004, the accrued interest related to these loans and included in accounts payable and accrued liabilities amount to \$44 686 712 (2003 : \$40 010 941).

6. LONG-TERM RECEIVABLES

	2004	2003
Gouvernement du Québec	2 619 103	2 763 788
Current portion	56 836	144 846
	<u>2 562 267</u>	<u>2 618 942</u>
Municipalities	281 562	307 554
Current portion	23 640	20 062
	<u>257 922</u>	<u>287 492</u>

The interest rate on long-term receivables is the same as the one the Société pays on its long-term debt. Receivables mature on the following terms:

Water purification studies:	
Municipalities	5 years
Gouvernement du Québec	25 years
Studies and watery and sewerage works	10 years
Water purification works	
Municipalities	20 years
Gouvernement du Québec	25 years

The municipalities reimburse their accounts payable to the Société on every interest payment.

The Government reimburses its accounts payable, when the long-term debt matures, for an amount equal to the unfinanced portion of its accounts payable.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX
NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

7. BANK LOAN

As at March 31, 2004, the Société had an authorized bank line of credit of \$500 000 through a demand loan agreement which foresees an interest charge of prime rate. This line of credit is renewable annually on the 30th of November.

8. LONG-TERM DEBT

 Bonds and notes payable ^{(a) (b)}

Maturity	Canadian Dollars	United States Dollars	Japanese Yen	Eurodollars	2004	2003
2004						639 826
2005	100 000	100 000	69 833		269 833	269 833
2006	244 214			143 788	388 002	381 652
2007	236 334			174 446	410 780	401 487
2008	206 900				206 900	205 000
2009	114 825				114 825	
1 to 5 years	902 273	100 000	69 833	318 234	1 390 340	1 897 798
6 to 10 years	1 361 356				1 361 356	925 855
11 to 20 years	50 000				50 000	50 000
	<u>2 313 629</u>	<u>100 000</u>	<u>69 833</u>	<u>318 234</u>	<u>2 801 696</u>	<u>2 873 653</u>
Bank loans ^(c)					<u>92 952</u>	<u>192 995</u>
					<u>2 894 648</u>	<u>3 066 648</u>
Current portion					<u>80 475</u>	<u>164 908</u>
					<u>2 814 173</u>	<u>2 901 740</u>

a Principal and interests on bonds and notes are guaranteed by the gouvernement du Québec. At maturity, most of these debts will be refinanced on a long-term basis. An amount of \$2 163 629 103 (2003: \$2 010 586 484) was contracted with the financing fund of the gouvernement du Québec.

b Principal and interests on bonds and notes issued in foreign currencies are hedged by currency and interest rate swaps.

Swaps are done directly with the gouvernement du Québec and the risks related to these swaps are guaranteed by the gouvernement du Québec.

Inflows and outflows related to these transactions are in Canadian dollars.

c These bank loans, which are not guaranteed by the gouvernement du Québec, will be financed on a long-term basis upon completion of the financing terms. They carried, on average, an interest rate of 160 basis points lower than the Canadian charter banks prime rate. An amount of \$5 400 000 (2003: \$700 000) was contracted with the financing fund of the gouvernement du Québec.

The total sinking fund available for reimbursement of the long-term debt is \$56 128 451 as March 31, 2004 (2003: \$63 183 423). These funds have been used to reduce temporarily the bank loans.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2004

(in thousands of dollars)

8. LONG-TERM DEBT (cont'd)

The interest rates on bonds and notes presented in the following chart include the interest rate contracted on debts, discounts and all cost related to the issues.

Maturity	Canadian Dollars	United States Dollars	Yens	Eurodollars	2004	2003
					Weighted average	Weighted average
1 to 5 years	6.16	9.67	9.89	8.44	7.12	7.38
6 to 10 years	5.66				5.66	5.91
11 to 20 years	10.25				10.25	10.25
Weighted average	5.95	9.67	9.89	8.44	6.47	6.96

9. COMMITMENTS

Commitments arising from the latest estimates issue from the agreements concluded with the municipalities and the gouvernement du Québec regarding the completion and financing of works, are as follows:

	2004	2003
Works to be completed	3 725 771	3 725 726
Works completed	3 725 543	3 725 265
Balance to be completed	228	461

10. CONTINGENCIES

As at March 31, 2004, claims and lawsuits from various suppliers amount to \$11.7 millions. The Société contests these litigations ensuing from works execution contracts. The Société's legal counsel is of the opinion that neither the possible outcome nor the amount of possible settlement, if any, can be foreseen. However, a provision for claims payable has been estimated by the Société's management. This provision is presented in the accounts payable and accrued liabilities on completed works. Any amount the Société will have to disburse to settle these litigations will be billed to the gouvernement du Québec on behalf of the municipalities and to the municipalities.

11. RELATED PARTY TRANSACTIONS

In addition to the related party transactions already disclosed in the financial statements, the Société is related to all departments and special funds as well as to all agencies and enterprises directly or indirectly controlled by the gouvernement du Québec or subject to either joint control, or significant influence by the gouvernement du Québec. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements and they are measured at exchange value.

12. PENSION PLANS

The Société employees contribute to the Government and Public Employees Retirement Plan (Régime de retraite des employés du gouvernement et des organismes publics or "RREGOP"), (Régime du personnel d'encadrement or "RRPE") and (Régime de retraite de personnel d'administration supérieure or "RRAS") These are multiemployer defined benefit plans and include guaranteed payments upon retirement and death.

The Société contributions charged to the year-end statement amount for \$3 931 (2003: \$11 731). The liability of the Société towards these government plans is restricted to its contributions as an employer.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX
NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2004

(in thousands of dollars)

13. FINANCIAL INSTRUMENTS
FAIR VALUE OF FINANCIAL INSTRUMENTS
Long-term debt

The fair market value of long-term debt of \$2 801 695 973 (2003: \$2 873 653 355) at March 31, 2004 amount to \$3 105 478 345 (2003: \$3 107 035 071) to reflect current market rates for similar securities and includes fair value of derived financial instruments

The temporary loans are financial instruments whose fair value approximates their carrying value of \$92 952 000 (2003: \$192 995 000) at March 31, 2004 due to their short-term maturity.

Long-term receivables

The fair value of long-term receivables approximates value of the long-term debt of \$3 105 000 000 (2003: \$3 107 000 000), as conditions of repayment are equivalent to those of long-term debt.

Other current assets and liabilities

Cash and equivalents, accounts receivable, accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

Derivative financial instruments

These financial instruments are contracts whose fair value fluctuate in function of subjacent security value and do not require holding or remittance of this one. This subjacent element can be of financial matter (interest rate and currency). The Société's financial instruments used are currency and interest rate swaps which is an operation between two parts who wants to exchange financial flows according to prefixed methods establishing a nominal reference value and an expiring date.

	2004			2003
	Fair value			
	Nominal reference value	Asset	Liability	Net amount
Currency and interest rate swaps	<u>488 067</u>	<u></u>	<u>(69 780)</u>	<u>(153 600)</u>

14. COMPARATIVE FIGURES

Certain figures of 2003 were reclassified for consistency with the presentation adopted in 2004.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**MANAGEMENT'S REPORT**

The financial statements of the Société québécoise d'assainissement des eaux have been prepared by the management which oversee the preparation and presentation, based on best judgment and estimates. This responsibility includes the appropriate accounting policies choice by using the generally accepted accounting principles. The financial information includes in the remains of the Annual Report tally with information in the Financial Statements.

To acquire this responsibility, the management maintains an internal accounting controls system, conceive to provide a confident of success that all goods are well protected and operations are accounted on time and properly, and are also correctly authorized and will provide reliable Financial Statements.

The Société acknowledge responsibilities to ensure that the affairs compliance with the provisions of the Act and regulations apply for the purposes of the mandate.

The board of Directors must overview the way the management fulfill their responsibilities in financial informations matter and approve the Financial Statements.

The Auditor General of Québec has audited the Financial Statements of the Société, in accordance with generally accepted auditing standards, and the Auditor report express an opinion on these Financial Statements based on his audit. The Auditor General can, without any restriction, meet the management to discuss any matters concerning his audit.

Maurice Masse
Chairman of the Board of Directors

Marc Pinsonnault, L.L.B., B.Sc.
President and Chief Executive Officer

Montréal, May 10, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société québécoise d'assainissement des eaux as at March 31, 2004 and the statements of revenue and expenses and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles has been applied on a basis consistent with that of the preceding year.

Acting Auditor General,
Doris Paradis, FCA

Québec, May 10, 2004

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)
(R.S.Q., c. S-22.01)

REVENUE AND EXPENDITURE AND EQUITY
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Green tax on tires – Net (Note 4)	\$21 660 604	\$21 333 342
Gouvernement du Québec transfers (Note 16)	2 737 069	2 513 622
Investment income	2 754 899	1 875 564
Revenue from industrial organizations (Note 3)	127 977	117 124
Revenue from glass recovery assistance program (Note 8)	808 606	597 611
Revenue on consignment of throw-away containers – Net (Note 5)	4 319 203	2 593 602
Other	51 553	9 233
	<u>32 459 911</u>	<u>29 040 098</u>
PROGRAM EXPENDITURE		
Used-tired program (Note 6)	18 006 217	15 831 618
Contributions to the waste management plan development assistance program	2 571 666	2 255 000
Other non-refundable contributions (Note 7)	573 677	851 130
Contributions to the glass recovery assistance program (Note 8)	825 363	613 545
Contribution to the recovery facilities improvement program (Note 17)	1 249 722	871 360
Recovery (loss) on financial interests and loan guarantees	(2 400)	25 500
	<u>23 224 245</u>	<u>20 448 153</u>
MANAGEMENT EXPENDITURE		
Salaries and fringe benefits	3 510 986	3 229 128
Operations (Note 9)	1 525 743	1 323 081
Communications, education and awareness	849 831	1 303 005
	<u>5 886 560</u>	<u>5 855 214</u>
	<u>29 110 805</u>	<u>26 303 367</u>
EXCESS REVENUE OVER EXPENDITURE	3 349 106	2 736 731
EQUITY, BEGINNING OF YEAR	<u>24 943 743</u>	<u>22 207 012</u>
EQUITY, END OF YEAR	<u>\$28 292 849</u>	<u>\$24 943 743</u>

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**BALANCE SHEET**
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$1 003 303	\$269 497
Short-term investments – at cost (Note 10)	2 745 415	4 969 566
Accounts receivable (Note 11)	11 282 874	12 247 185
Prepaid expenses	84 206	51 850
	<u>15 115 798</u>	<u>17 538 098</u>
Long-term investments (Note 12)	35 272 291	30 433 713
Fixed assets (Note 13)	<u>519 197</u>	<u>588 458</u>
	<u><u>\$50 907 286</u></u>	<u><u>\$48 560 269</u></u>
LIABILITIES		
Current liabilities		
Accounts payable (Note 15)	\$5 089 360	\$5 405 296
Deferred Gouvernement du Québec transfers (Note 16)	4 527 063	4 904 132
Deposit entry on fines (Note 17)	3 155 891	2 892 203
Amounts refundable (Note 18)	1 503 261	1 874 588
Provision for contribution to the recovery facilities improvement program (Note 17)	403 085	642 923
	<u>14 678 660</u>	<u>15 719 142</u>
Allowance for losses on loan guarantees (Note 21)	145 600	148 000
Allowance for refund of deposits	5 778 256	5 742 260
Allowance for payment of recovery incentives	2 011 921	2 007 124
	<u>22 614 437</u>	<u>23 616 526</u>
EQUITY	<u>28 292 849</u>	<u>24 943 743</u>
	<u><u>\$50 907 286</u></u>	<u><u>\$48 560 269</u></u>

On behalf of the Board of Directors,
Michel Cyr
Réginald Lavertu

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)
CASH FLOWS

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Excess of revenue over expenditure	\$3 349 106	\$2 736 731
Items not affecting cash and cash equivalents:		
(Recovery) Losses of financial interest and loan guarantees	(2 400)	25 500
Gain on disposal of investments	(795 019)	(366 279)
Loss on disposal of fixed assets	27 242	20 870
Depreciation of fixed assets	243 010	177 616
Amortization of the discount and premium on investments – net	<u>169 161</u>	<u>62 681</u>
	2 991 100	2 657 119
Changes in assets and liabilities related to operations		
Accounts receivable	964 311	(4 068 359)
Prepaid expenses and other	(32 356)	39 264
Accounts payable	(315 936)	2 393 732
Deferred Gouvernement du Québec transfers	(377 069)	2 496 378
Temporary deposits on penalties	263 688	1 730 390
Amounts refundable	(371 327)	1 279 568
Provision for contribution to the recovery facilities improvement program	(239 838)	642 923
Allowance for refund of deposits	35 996	264 357
Allowance for payment of recovery incentives	<u>4 797</u>	<u>54 423</u>
	(67 734)	4 832 676
Cash flows provided by operating activities	<u>2 923 366</u>	<u>7 489 795</u>
INVESTMENT ACTIVITIES		
Proceeds from disposal of investments	28 942 787	9 290 440
Acquisition of investments	(33 155 507)	(15 902 894)
Acquisition of fixed assets	(201 570)	(441 826)
Proceeds from disposal of fixed assets	<u>579</u>	<u>6 573</u>
Cash flows used for investment activities	<u>(4 413 711)</u>	<u>(7 047 707)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1 490 345)	442 088
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5 239 063</u>	<u>4 796 975</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$3 748 718</u>	<u>\$5 239 063</u>
THE BREAKDOWN OF CASH AND CASH EQUIVALENTS IS AS FOLLOWS:		
Cash on hand	\$1 003 303	\$269 497
Short-term investments	<u>2 745 415</u>	<u>4 969 566</u>
	<u>\$3 748 718</u>	<u>\$5 239 063</u>

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**NOTES TO FINANCIAL STATEMENTS**
as at March 31, 2004**1. CONSTITUTION AND PURPOSE**

A legal person within the meaning of the Civil Code, the Société québécoise de récupération et de recyclage (RECYC-QUÉBEC) was established under the Act respecting the Société québécoise de récupération et de recyclage (R.S.Q., c. S-22.01).

The purpose of the Société is to promote, develop and foster the reduction, reuse, recovery and recycling of containers, packaging, materials or products with a view to resource conservation.

In order to foster recovery, reuse and recycling, the Société has implemented financial assistance programs aimed at businesses operating in these areas.

The Gouvernement du Québec mandated the Société to implement the integrated management program for used tires and the program for emptying used tire storage sites in Québec for the fiscal years 2001-2008.

The Société is also responsible for administering agreements relating to the consignment, recovery and recycling of non-refillable beer and soft drink containers entered into pursuant to the Act respecting the sale and distribution of beer and soft drinks in non-returnable containers (R.S.Q., c. V-5.001).

The Gouvernement du Québec entrusted the Société with the implementation and administration of the Government's financial assistance program for the development of waste management plans designed to provide financial support to the municipalities and regional county municipalities for the development of their management plan.

Under section 3 of its incorporating legislation, the Société is an agent of the State and, consequently, not subject to federal or provincial income tax.

2. ACCOUNTING POLICIES

The financial statements of the Société were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Fixed assets

Fixed assets are recorded at cost and depreciated over their useful lives according to the linear method.

	<u>Duration</u>
Furniture and equipment	7 years
Data processing equipment	5 years
Software	3 years
Data processing development	5 years
Leasehold improvements	Term of lease

Long-term investments

Bonds are recorded at amortized cost. Mutual fund units are recorded at cost. Discounts and bond premiums are amortized using the straight-line method over the duration remaining for each security. The amortization of discounts and premiums is recorded under investment income. Investment management fees are deducted from investment income.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004

2. ACCOUNTING POLICIES (cont'd)

Allowance for losses on loan guarantees

The allowance for losses is calculated by evaluating potential losses on each activity individually, but cannot be less than 25% of the balance owed on outstanding loans.

Allowance for the refund of deposits

An allowance has been set up to provide the sums required to refund deposits on containers sold before March 31 that will be recovered after the end of the year or after the agreements expire. This allowance was established according to the recovery rates anticipated by management, after deducting deposits recorded on containers recovered derived from sales during the year. For the purposes of the allowance, the recovery rate for 5¢ containers has been set at 74.98% as at March 31, 2004 (2003: 74.15%), and at 78.17% for 10¢ containers (2003: 78.23%) and at 81.80% for 20¢ containers (2003: 81.01%).

Allowance for the payment of recovery incentives

An allowance has been set up to provide the sums required to pay recovery incentives of \$0.02 for each container recovered by a party to the agreement as at March 31, which is claimed after the end of the year. This allowance was established according to the same rate as that used to calculate the allowance for the refund of deposits.

Provision for contribution to the throw-away container recovery facilities improvement program

A provision was established to cover the amounts needed for the Société's contribution to the throw-away container recovery facilities improvement program.

This provision is based on the lesser of the maximum contribution provided for and the costs incurred or to be incurred under the agreement on the consignment, recovery and recycling of throw-away soft drink containers.

Revenue from the consignment of throw-away containers – net

Revenue from the consignment for containers sold, reimbursements of consignment amounts and recovery incentives is calculated based on the declarations provided by parties to the beer agreement.

A provision is entered reimbursement of consignment amounts and recovery incentives for containers sold and recycled after the fiscal year-end or after expiry of the agreements.

In keeping with the agreements, declarations are subject, among other things, to inspection. Adjustments following these inspections are, where applicable, charged to revenue for the fiscal year in which they are known.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that RECYC-QUÉBEC lacks sufficient information to apply the accounting procedure for defined benefit-plans.

Cash flows

The Commission's policy consists in presenting under cash and cash equivalents bank balances and short-term investments that can easily be converted in the short term to a known amount of cash, whose value is not likely to change significantly.

3. REVENUE FROM INDUSTRIAL ORGANIZATIONS

Under a paint container recovery agreement, twice a year, a non-profit organization designated by paint manufacturers must pay the Société an amount for information, awareness, education, coordination and results monitoring purposes.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004

4. GREEN TAX ON TIRES – NET

	2004	2003
Green tax on tires	\$22 029 163	\$21 699 000
Less:		
Administrative costs on tax collection	(368 559)	(365 658)
	<u>\$21 660 604</u>	<u>\$21 333 342</u>

5. REVENUE FROM CONSIGNMENT OF THROW-AWAY CONTAINERS – NET

	2004	2003
Soft drinks & others		
Consignment amounts on containers sold	\$500 477	\$565 576
Reimbursement of consignment amounts	(297 330)	(311 786)
Recovery incentive premiums	(56 029)	(69 676)
	147 118	184 114
Royalty – bottlers	714 144	708 079
Fines acquired – bottlers	2 490 778	1 161 813
Other revenue	3 500	4 686
	<u>3 355 540</u>	<u>2 058 692</u>
Net revenue for the year		
	<u>3 355 540</u>	<u>2 058 692</u>
Beer		
Consignment amounts on containers sold	18 375 810	16 601 240
Reimbursement of consignments amounts	(14 408 455)	(12 992 087)
Recovery incentive premiums	(2 279 796)	(2 161 345)
	1 687 559	1 447 808
Amount repayable to brewers	(1 283 834)	(1 447 808)
	403 725	
Royalty – brewers	124 843	111 322
Fines acquired – brewers	108 018	
Other revenue	46 356	162 077
Recovered management fees	280 721	261 511
	<u>963 663</u>	<u>534 910</u>
Net revenue for the year		
	<u>\$4 319 203</u>	<u>\$2 593 602</u>

Under the agreement on the consignment, recovery and recycling of throw-away soft drink containers that took effect in December 1, 1999, the collection and reimbursement of consignment amounts and the payment of recovery incentive premiums are carried out by a non-profit organization designated by Québec soft drink bottlers.

The royalties and penalties provided for in the two (2) agreements are paid to the Société and management fees are invoiced to the brewing industry for management of their agreement.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004

6. USED-TIRE PROGRAM

	2004	2003
Site emptying	\$6 479 518	\$4 909 195
Transportation and stockpiling	6 924 974	6 334 308
Re-employment assistance	38 266	29 129
Recycling assistance – primary processing	3 628 927	3 638 225
Recycling assistance – secondary processing		64 488
Technological development assistance	53 950	157 704
Assistance for energy use	539 790	387 473
Discount for prepayment	340 792	311 096
	<u>\$18 006 217</u>	<u>\$15 831 618</u>

7. OTHER NON-REFUNDABLE CONTRIBUTIONS

	2004	2003
Information, education and awareness	\$326 220	\$402 465
Pilot projects and experiments	101 294	195 668
Other projects	146 163	252 997
	<u>\$573 677</u>	<u>\$851 130</u>

8. GLASS RECOVERY ASSISTANCE PROGRAM

The Société administers, in partnership with the Société des Alcools du Québec, a glass recovery and recycling assistance program in Québec. Under existing agreements with the Société des Alcools du Québec, all of the financial assistance paid for the transport and sorting of glass is reimbursed by the Société des Alcools du Québec and 50% of the assistance allotted to processors for technological development designed to the recycle glass. Moreover, the management fees are paid to the Société.

9. OPERATING EXPENSES

	2004	2003
Professional fees	\$357 037	\$301 550
Information highway	57 096	73 440
Courier services and telecommunications	61 294	61 180
Rent, taxes and insurance	375 085	317 346
Travelling	182 566	159 885
Equipment rental	20 926	14 756
Maintenance and repairs	35 599	27 907
Supplies and miscellaneous expenses	42 900	47 898
Representation, meetings and conferences	47 017	33 726
Training and upgrading	45 376	43 286
Subscriptions, documentation and assessments	24 507	25 086
Depreciation of fixed assets	243 010	177 616
Loss on disposal of fixed assets	27 242	20 870
Relocation	6 088	18 535
	<u>\$1 525 743</u>	<u>\$1 323 081</u>

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004

10. SHORT-TERM INVESTMENTS

Short-term investments, recorded at cost, represent discount notes and bonds maturing within a year. Fixed interest rates vary from 1.99% to 6.57%. These investments mature during the next fiscal year.

11. ACCOUNTS RECEIVABLE

	2004	2003
Deposits	\$1 379 733	\$1 646 003
Fines – bottlers and brewers (Note 17)	3 155 891	2 892 203
Tires	3 192 698	2 945 412
Gouvernement du Québec transfer receivable (Note 16)	2 360 000	3 960 000
Other	751 769	428 358
Accrued interest	442 783	375 209
	<u>\$11 282 874</u>	<u>\$12 247 185</u>

12. LONG-TERM INVESTMENTS

	2004	2003
Bonds 2.46% to 6.49%, maturing on various dates up to 2013	\$25 467 519	\$21 905 446
Bond mutual fund units	9 804 772	8 528 267
	<u>\$35 272 291</u>	<u>\$30 433 713</u>

Bonds mature as follows:

	2004	2003
2005		\$5 020 496
2006	\$6 109 123	5 126 914
2007	8 998 641	2 545 620
2008	1 505 278	1 011 772
2009 and thereafter	8 854 477	8 200 644
	<u>\$25 467 519</u>	<u>\$21 905 446</u>

The management fees for the fiscal year's investments total \$88 900 (2003: \$80 931).

13. FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Furniture and equipment	\$429 445	\$198 868	\$230 577	\$224 677
Data processing equipment	307 280	174 637	132 643	172 057
Software	127 856	106 158	21 698	139 361
Data processing development	160 382	76 486	83 896	
Leasehold improvements	92 939	42 556	50 383	52 363
	<u>\$1 117 902</u>	<u>\$598 705</u>	<u>\$519 197</u>	<u>\$588 458</u>

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004**13. FIXED ASSETS (cont'd)**

As of the current fiscal year, fixed assets are amortized according to the straight-line method rather than the declining balance method.

This change in accounting estimate decreased the surplus revenue over expenditures for the fiscal year by \$9 230.

14. BANK LOAN

At March 31, 2004, the Société had a bank line of credit of \$200 000. The sums used bear interest at the prime rate.

15. ACCOUNTS PAYABLE

	2004	2003
Salaries and fringe benefits	\$429 472	\$437 518
Accounts payable and accruals	1 053 457	1 635 666
Deposits and recovery incentives	1 125 719	859 785
Non-refundable contributions – used-tire program	2 480 712	2 472 327
	<u>\$5 089 360</u>	<u>\$5 405 296</u>

16. DEFERRED GOUVERNEMENT DU QUÉBEC TRANSFERS

	2004	2003
Education, awareness, R&D and composting projects	\$113 729	\$279 132
Government assistance program for waste management plans	4 413 334	4 625 000
	<u>\$4 527 063</u>	<u>\$4 904 132</u>

During a previous fiscal year, the Société collected \$3 000 000 in Gouvernement du Québec subsidies applicable to support for educational projects, awareness, research and development and waste composting. At March 31, 2004, the amounts used for this purpose totalled \$2 886 271 including \$165 403 for the current fiscal year.

Moreover, this fiscal year, the Société received a Gouvernement du Québec subsidy of \$2 360 000 (2003: \$5 010 000) under an Order-in-Council dated March 27, 2002 for the implementation of the Government assistance program for waste management plans. During the year, the amounts used in this regard total \$2 571 666.

17. PROVISIONAL DEPOSIT ON FINES AND PROVISION FOR CONTRIBUTION TO THE RECOVERY FACILITIES IMPROVEMENT PROGRAM

Under two consignment agreements in effect, Boissons gazeuses environnement and members of the beer agreement must pass the Société a provisional fine for unattained recovery objectives. This fine is levied at December 31, 2004 if the target objective for 2003 is not attained. Interest on fines not levied is payable to Boissons gazeuses environnement and annually to signatories of the beer agreement on a quarterly basis. At March 31, 2004, the amount of the provisional fines was \$3 155 891 (2003: \$2 892 203) broken down as follows:

	2004	2003
Boissons gazeuses environnement	\$2 971 092	\$2 730 634
Members– brewers	184 799	161 569
	<u>\$3 155 891</u>	<u>\$2 892 203</u>

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004

17. PROVISIONAL DEPOSIT ON FINES AND PROVISION FOR CONTRIBUTION TO THE RECOVERY FACILITIES IMPROVEMENT PROGRAM (cont'd)

Following an agreement signed during the fiscal year, the provisional deposit on fines of bottlers and brewers in 2003 was reduced by \$293 407.

Since the recovery objective for 2002 stipulated in the agreements was not attained at December 31, 2003, the adjusted provisional fine for 2002, in the amount of \$2 598 796, was considered levied.

However, under the same agreement, the Société agreed to use the fine levied in 2002 to reimburse Boissons gazeuses environnement for the costs incurred under the recovery facilities improvement program. The Société's financial obligation is limited to the 75% of the cumulated fines levied for unattained recovery objectives as of January 1, 2002 or the investment duly made by Boissons gazeuses environnement under the program no later than December 31, 2003, whichever is less.

In fiscal 2003-2004, Boissons gazeuses environnement duly committed \$846 637 to the program. According to the Société's estimates, total of \$1 249 722, consequently, the Société posted a provision for contribution to the program in the amount of \$403 085.

18. AMOUNTS REFUNDABLE

	2004	2003
Amounts refundable to brewers	\$812 080	\$1 182 447
Amounts refundable to Boissons gazeuses environnement	691 181	692 141
	<u>\$1 503 261</u>	<u>\$1 874 588</u>

Under the consignment agreement, throw-away soft drink container recovery and recycling, in effect since December 1, 1999, Boissons gazeuses environnement, the organization representing the signatories, must refund certain amounts paid by the Société or to be refunded by the Société from some of the amounts it has disbursed. As at March 31, 2004, Boissons gazeuses environnement refundable amounts were estimated at \$691 181 (2003: \$692 141).

Under the agreement respecting the consignment, recovery and recycling of non-refillable beer containers, in effect from January 1, 2003 to December 31, 2005, and its renewal in effect since January 1, 2001, the parties must reimburse to the Société the amount of the annual deficit (calendar year) arising from the deposit-return systems for their containers (consignment collected and reimbursed, recovery incentives and administrative expenses). In cases where the annual results calculated are too high, the 67% surplus will be returned to members. The balance is used for container recovery and recycling education and awareness and for the development of the residual matter technologies market. The Société estimates the amounts refundable as at March 31, 2004 at \$812 080 (2003: \$1 182 447).

19. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

20. COMMITMENTS

The Société is committed under long-term leases maturing at various dates between now and October 31, 2007 for administrative offices. These leases include a five-year renewal option.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2004**20. COMMITMENTS (cont'd)**

Rental costs for the fiscal year ending March 31, 2004 for these administrative offices were \$335 835. Minimum future payments are as follows:

2005	\$338 874
2006	338 874
2007	338 874
2008	<u>131 146</u>
	<u>\$1 147 768</u>

21. CONTINGENCIES

The Société guarantees the losses that may be incurred by a financial institution on a loan granted to business. The Société signed a loan guarantee agreement for a maximum of \$490 000 for which the balance owing on the loan amounted to \$364 000 at March 31, 2004.

The Société posts claims totalling some \$665 000, arising from its normal course of business. The Société cannot predict the outcome of this dispute. Consequently, no provision was posted on the books.

22. FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

Long-term investments

At March 31, 2004, the fair value of investments of \$35 272 291 (2003: \$30 433 713) was \$36 521 581, (2003: \$31 052 821), given the capitalization of cash flows at the market rate for securities with similar maturity dates and interest rates.

Short-term assets and liabilities

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

Provision for losses on loan guarantees, provision for reimbursement of deposits, provision for payment of recovery-incentive premiums

The fair value of these provisions is equal to their book value given that they are revalued annually.

23. PENSION PLANS

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP), Management Personnel Retirement Plan (MPRP) or Upper Management Retirement Plan (RRAS). These are interenterprise defined-benefit plan and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement amount to \$100 024 (2003: \$85 198). The Société's liability towards these Government plans is restricted to its contributions as an employer.

24. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**MANAGEMENT'S REPORT**

The financial statements of the Société québécoise de récupération et de recyclage (Recyc-Québec) were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Robert Lemieux
President General Director

Richard Boisvert, CA
Vice-President, Finance and Administration

Québec, June 30, 2004

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société québécoise de récupération et de recyclage (RECYC-QUÉBEC) as at March 31, 2004 and the statements of revenue and expenditure, equity and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of the operations and cash flows for the year then ended, in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 30, 2004

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)
(R.S.Q., c. I-20)

REVENUE AND EXPENDITURE
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE FROM PUBLICATIONS AND SERVICES	\$11 548 455	\$10 949 756
COST OF PUBLICATIONS AND SERVICES (Note 3)	<u>7 037 749</u>	<u>6 415 444</u>
GROSS MARGIN	4 510 706	4 534 312
OVERHEAD AND ADMINISTRATIVE EXPENSES (Note 4)	<u>3 354 281</u>	<u>3 331 761</u>
NET REVENUE	<u>\$1 156 425</u>	<u>\$1 202 551</u>

SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
SURPLUS, BEGINNING OF YEAR	\$1 000 000	\$600 000
NET REVENUE	<u>1 156 425</u>	<u>1 202 551</u>
	2 156 425	1 802 551
NET REVENUE OWING TO THE GOUVERNEMENT DU QUÉBEC	<u>(1 156 425)</u>	<u>(802 551)</u>
SURPLUS, END OF YEAR (Note 5)	<u>\$1 000 000</u>	<u>\$1 000 000</u>

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)

BALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$1 103 055	\$1 383 149
Accounts receivable	1 828 842	1 638 487
Publications inventory	236 653	224 318
Work in progress - publications	413 500	355 786
Prepaid expenses	<u>172 961</u>	<u>100 326</u>
	3 755 011	3 702 066
Fixed assets (Note 6)	<u>1 342 037</u>	<u>1 185 431</u>
	<u>\$5 097 048</u>	<u>\$4 887 497</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals (Note 7)	\$1 588 670	\$1 501 253
Deferred revenue	<u>920 611</u>	<u>1 277 082</u>
	2 509 281	2 778 335
Net revenue to be remitted to the Gouvernement du Québec	1 156 425	667 222
Provision for sick leave (Note 10)	387 339	381 436
Deferred lease inducement	<u>44 003</u>	<u>60 504</u>
	4 097 048	3 887 497
SURPLUS	<u>1 000 000</u>	<u>1 000 000</u>
	<u>\$5 097 048</u>	<u>\$4 887 497</u>
COMMITMENTS (Note 11)		

On behalf of the Société,
Jean-Paul Dupré
Yves Lauzon

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)**NOTES TO FINANCIAL STATEMENTS**

March 31, 2004

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société québécoise d'information juridique (SOQUIJ) was established under a special act (R.S.Q., c. I-20) for the purpose of promoting research, processing and development of legal information in order to improve its quality and accessibility to the general public.

Under the Income Tax Act (R.S.C.1985, c. 1, 5th supplement) and the Taxation Act (R.S.Q., c. I-3), the Société is not subject to income tax.

2. ACCOUNTING POLICIES

The financial statements of the Société were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of cash flow is not shown as it would not provide any useful supplementary information regarding the Société's cash flow during the year.

Cash and cash equivalents

This item consists of cash and in 2003 included an investment in a liquid assets fund with a financial institution.

Inventory and work in progress - publications

Inventory of publications is valued at the lower of cost and net realizable value. Work in progress related to publications is valued at cost. The cost of each publication includes direct design and publishing costs (labour, materials and printing) and related indirect costs. The contributions of certain agencies are deducted from this amount.

Fixed assets

Fixed assets are recorded at cost and depreciated on a straight-line basis at the following rates:

Office furniture and leasehold improvements	5 years
Data processing equipment	3 years
Data processing system	7 years

Deferred revenue

Receipts from subscriptions and other publications are deferred and then transferred to operations upon shipment.

Deferred lease inducement

The lease inducement granted the Société by the lender represents the sum of free rent for the rental of administrative offices. The inducement is amortized using the straight-line method over the remainder of the lease, i.e. until November 2006.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004**3. COST OF PUBLICATIONS AND SERVICES**

	2004	2003
Salaries, fringe benefits and corporate charges	\$4 757 976	\$4 379 289
Professional fees	462 053	458 581
Formatting and printing	460 754	405 926
Advertising	353 333	296 495
Equipment rental and maintenance	339 945	266 106
Depreciation of fixed assets	335 600	209 006
Communications and shipping	270 707	232 009
E-data warehouse	202 000	337 521
Royalties	93 182	40 291
Rent, taxes and insurance	30 912	31 806
Travelling and representation	26 474	20 669
Inventory variation	(70 049)	(24 997)
Contributions of certain organizations	(225 138)	(237 258)
	<u>\$7 037 749</u>	<u>\$6 415 444</u>

4. OVERHEAD AND ADMINISTRATIVE EXPENSES

	2004	2003
Salaries, fringe benefits and corporate charges	\$2 015 346	\$2 022 251
Rent, municipal taxes and insurance	793 789	745 201
Staff training	92 551	75 368
Professional fees	88 926	81 602
Travelling and representation	87 461	83 129
Documentation and supplies	86 153	96 239
Communications and shipping	45 381	40 873
Depreciation of fixed assets	37 828	31 459
Equipment rental and maintenance	33 337	133 662
Other	73 509	21 977
	<u>\$3 354 281</u>	<u>\$3 331 761</u>

The fiscal year's amortization of the deferred lease inducement was \$16 501 (2003: \$16 501) recorded as a decrease in rental costs.

5. SURPLUS

The net revenue of the Société's fiscal year must be paid into the Consolidated Revenue Fund of the Gouvernement du Québec, after constituting a working fund. This amount, which is determined by the government, has been set at \$1 000 000 as of the fiscal year ending March 31, 2003.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

6. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net
Leasehold improvements	\$26 294	\$26 294	\$5 259
Office furniture	327 197	207 402	148 678
Data processing equipment	2 153 969	1 725 404	500 900
Data processing system	822 425	28 748	530 594
	<u>\$3 329 885</u>	<u>\$1 987 848</u>	<u>\$1 185 431</u>

Acquisitions of fixed assets for the year amount to \$518 455 (2003: \$766 684).

The computer system came on-line on January 1, 2004.

7. PAYABLES AND ACCRUED EXPENSES

	2004	2003
Salaries, fringe benefits and corporate charges	\$915 652	\$844 073
Other payables and accrued expenses	<u>673 018</u>	<u>657 180</u>
	<u>\$1 588 670</u>	<u>\$1 501 253</u>

8. FINANCIAL INSTRUMENTS**Fair value**

The fair value of the short-term financial instruments equals their book value given that they mature in the near future.

9. RELATED PARTY TRANSACTIONS

The Society is related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by the Gouvernement du Québec. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

10. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP) or Management Personnel Retirement Plan (MPRP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

10. FUTURE FRINGE BENEFITS (cont'd)**Pension plans (cont'd)**

The Société's contributions charged to the year-end statement amount to \$200 307 (2003: \$183 903). The Société's liability towards this Government plan is restricted to its contributions as an employer.

Provision for sick leave

	<u>2004</u>	<u>2003</u>
Opening balance	\$381 436	\$320 528
Charges for the year	182 153	183 883
Benefits paid during the year	<u>(176 250)</u>	<u>(122 975)</u>
	<u><u>\$387 339</u></u>	<u><u>\$381 436</u></u>

11. COMMITMENTS

The Société is committed to long-term leases for office space, warehousing and equipment, expiring on various dates until November 2009. The minimum lease payments for the coming fiscal years are as follows:

2005	\$1 088 965
2006	1 048 408
2007	462 939
2008	12 000
2009	<u>8 000</u>
	<u><u>\$2 620 312</u></u>

12. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)**MANAGEMENT'S REPORT**

The financial statements of the Société québécoise d'information juridique (SOQUIJ) were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Claude-Paul Hus
Director General

Yves Boulanger
Accounting Coordinator

Montréal, June 8, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société québécoise d'information juridique (SOQUIJ) as at March 31, 2004 and the statements of revenue and expenditure and surplus allocated to working capital for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 8, 2004

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)
(R.S.Q., c. S-12.01)

REVENUE AND EXPENDITURE AND SURPLUS
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Gouvernement du Québec subsidies		
Operations	\$59 335 300	\$59 701 200
Repayment of long-term debt	723 521	1 257 125
Transfer of deferred subsidies (Note 13)	1 126 997	1 294 870
Activities involving the production and distribution of educational material	1 301 267	1 901 565
Other	<u>470 306</u>	<u>613 447</u>
	62 957 391	64 768 207
Sales, services and other revenue	<u>14 426 340</u>	<u>13 225 422</u>
	<u>77 383 731</u>	<u>77 993 629</u>
EXPENDITURE (Note 3)		
Programming	38 716 540	44 095 469
Production and technology	13 031 779	12 948 291
Administration	12 970 769	12 390 814
Marketing and communications	6 128 904	5 119 908
Institutional development	2 445 630	2 121 951
Depreciation of fixed assets	3 856 236	3 952 720
Financial expenses – net (Note 4)	234 547	216 685
Share in the results of the satellite corporation	<u>(24 959)</u>	<u>154 915</u>
	77 359 446	81 000 753
EXCESS REVENUE OVER EXPENDITURE BEFORE EXTRAORDINARY ITEM	<u>24 285</u>	<u>(3 007 124)</u>
Gains resulting from an insurance claim (Note 5)	<u>625 759</u>	
EXCESS REVENUE OVER EXPENDITURE	<u>650 044</u>	<u>(3 007 124)</u>
SURPLUS, BEGINNING OF YEAR	<u>8 474 547</u>	<u>11 481 671</u>
SURPLUS, END OF YEAR	<u>\$9 124 591</u>	<u>\$8 474 547</u>

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**BALANCE SHEET**
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Accounts receivable	\$4 814 957	\$5 131 466
Gouvernement du Québec subsidies receivable (Note 6)	3 053 545	998 652
Programs produced and in production	1 461 356	1 000 267
Broadcastings and distribution rights and participation in outside productions	29 495 066	31 287 278
Production and technical supplies	412 325	445 449
Prepaid expenses	244 108	257 155
	<u>39 481 357</u>	<u>39 120 267</u>
Long-term investment (Note 7)	2 629 886	2 604 927
Gouvernement du Québec subsidies receivable (Note 6)	12 858 596	13 329 250
Fixed assets (Note 8)	<u>15 929 962</u>	<u>18 121 802</u>
	<u><u>\$70 899 801</u></u>	<u><u>\$73 176 246</u></u>
LIABILITIES		
Current liabilities		
Outstanding cheques less cash on hand	\$1 446 628	\$473 874
Short-term borrowings (Note 9)	14 040 214	18 471 252
Accounts payable and accruals (Note 10)	10 688 670	11 180 404
Broadcasting and distribution rights and participation in outside productions – payable	10 467 624	13 826 610
Instalments on long-term debt (Note 11)	1 781 524	1 278 000
Deferred revenue (Note 13)	2 177 918	1 396 241
	<u>40 602 578</u>	<u>46 626 381</u>
Long-term debt (Note 11)	14 854 192	11 600 470
Gouvernement du Québec advance (Note 12)	2 750 000	2 750 000
Deferred revenue (Note 13)	<u>3 568 440</u>	<u>3 724 848</u>
	61 775 210	64 701 699
SURPLUS	<u>9 124 591</u>	<u>8 474 547</u>
	<u><u>\$70 899 801</u></u>	<u><u>\$73 176 246</u></u>

COMMITMENTS (Note 15)

On behalf of the Board of Directors,
Robert Forget
Micheline Paradis

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**CASH FLOWS**
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Excess revenue over expenditure over extraordinary element	\$24 285	\$(3 007 124)
Items not affecting liquid assets:		
Depreciation of fixed assets	3 856 236	3 952 720
Transfer of deferred income	(1 552 649)	1 582 152
Loss (gain) on disposal of fixed assets	17 633	(51 131)
Share in the results of the satellite corporation	(24 959)	154 915
	<u>2 320 546</u>	<u>2 631 532</u>
Change in non-cash items elements related to operations (Note 14)	<u>(2 033 892)</u>	<u>4 315 921</u>
Cash flows provided for operating activities	<u>286 654</u>	<u>6 947 453</u>
FINANCING ACTIVITIES		
Gouvernement du Québec subsidies receivable	470 654	(3 893 417)
Borrowing from the Financing Fund	(3 942 038)	4 332 252
Long-term debt	5 035 246	
Repayment of long-term debt	<u>(1 278 000)</u>	<u>(1 811 604)</u>
Cash flows provided by (used for) financing activities	<u>285 862</u>	<u>(1 372 769)</u>
INVESTMENT ACTIVITIES		
Portfolio investment		(9 842)
Acquisition of fixed assets	(1 765 096)	(4 614 319)
Proceeds from disposal of fixed assets	83 067	42 835
Gain resulting from an insurance claim	<u>625 759</u>	<u></u>
Cash flows used to investment activities	<u>(1 056 270)</u>	<u>(4 581 326)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(483 754)</u>	<u>993 358</u>
DEFICIENCY IN CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>(14 612 874)</u>	<u>(15 606 232)</u>
DEFICIENCY IN CASH AND CASH EQUIVALENTS, END OF YEAR (Note 14)	<u><u>\$(15 096 628)</u></u>	<u><u>\$(14 612 874)</u></u>

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, Télé-Québec was established by the Act respecting the Société de télévision du Québec (R.S.Q., c. S-12.01).

The main purpose of Télé-Québec is to operate an educational and cultural television broadcasting service and a service for producing and disseminating audiovisual, multimedia and television broadcasts.

2. ACCOUNTING POLICIES

The financial statements of Télé-Québec were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Subsidy recording

Subsidies are recorded as revenues in the fiscal year during which the corresponding expenditures are incurred.

Subsidies receivable for fixed assets and their maintenance are recorded in the fiscal year in which Télé-Québec obtained the financing or carried out the work entitling it to these subsidies.

Programs produced and in production

Programs already produced and in production are entered at average cost. Cost includes the direct cost of supplies and services in addition to the share of labour costs and overhead allocated to each program. The average cost for a given program is charged to operations when the program is broadcast or declared unusable.

Broadcasting and distribution rights and participation in outside productions

Broadcasting and distribution rights for audiovisual material are generally acquired for five years. They are capitalized then charged to operations according to the number of broadcasts made and on the following basis, except where they are posted based on the considerations attached to these rights:

50% for the first broadcast;
30% for the second broadcast;
20% for the third broadcast.

Rights on films deemed unusable are written off as soon as such a decision is made.

Télé-Québec's participation in outside productions and the attendant rights are deferred and then charged in full to operations when the program is first broadcast, except where they are posted based on the considerations attached to these rights.

Production and technical supplies

The inventory of production and technical supplies is recorded at cost or net realizable value, whichever is lower. Cost is determined according to the average cost method.

Long-term investments

Investment in a satellite corporation is recorded on an equity basis. The portfolio investment is recorded at acquisition value. When the investment posts a permanent decline in value, its book value is reduced to reflect this decline. This reduction is posted directly to the fiscal year's operations.

Fixed assets

Fixed assets are recorded at cost.

The antenna array includes buildings, materials, engineering services, infrastructures, direct labour costs, interest on interim financing during construction and the attendant overhead.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

2. ACCOUNTING POLICIES (cont'd)**Fixed assets (cont'd)**

Fixed assets are depreciated according to the straight-line method at the following rates:

	<u>Rate</u>
Antenna array	5%
Improvements to antenna array	10%
Technical equipment	10%
Furniture and fixtures	10%
Data processing equipment	20%
Software	3 years
Automotive equipment	20%
Leasehold improvements	Term of lease, maximum 5 years
Grouping of installations:	
Technical equipment	6.67%
Furniture and fixtures	6.67%
Leasehold improvements	Term of lease, maximum 15 years

Cash and cash equivalents

Télé-Québec's policy consists in presenting under cash and cash equivalents bank balances including bank overdrafts and loans from financial institutions contracted to meet short-term cash flow commitments.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that Télé-Québec lacks sufficient information to apply the accounting procedure for defined-benefit plans

3. EXPENDITURE BY CATEGORY

	<u>2004</u>	<u>2003</u>
Salaries and fringe benefits	\$27 768 386	\$28 016 864
Transportation and communications	4 232 926	3 711 551
Professional, administrative and other services	4 594 979	4 649 188
Rent	6 854 118	6 789 279
Materials and supplies	2 235 052	2 406 476
Broadcasting and distribution rights	25 983 877	28 586 121
Depreciation of fixed assets	3 856 236	3 952 720
Direct expenses – independent productions	1 836 370	2 498 801
Direct expenses – service delivery	95 394	44 689
Financial expenses	234 547	216 685
Accounts receivable written off	14 722	
Share in the results of the satellite corporation	(24 959)	154 915
Loss on disposal of fixed assets	22 701	
	<u>77 704 349</u>	<u>81 027 289</u>
Programs produced and in production, participation in outside productions – change for the year	<u>(344 903)</u>	<u>(26 536)</u>
	<u>\$77 359 446</u>	<u>\$81 000 753</u>

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

4. FINANCIAL EXPENSES - NET

	<u>2004</u>	<u>2003</u>
Interest on long-term debt	\$1 008 774	\$1 075 392
Interest on loans from financial institutions	233 963	216 144
Interest on borrowings from Financing Fund	141 606	28 582
Gouvernement du Québec subsidy – interest on short-term debt	(141 022)	(28 582)
Gouvernement du Québec subsidy – interest on long-term debt	<u>(1 008 774)</u>	<u>(1 074 851)</u>
	<u>\$234 547</u>	<u>\$216 685</u>

5. MONT-CARMEL DISASTER

Gain resulting from an insurance claim

On April 22, 2001, an airplane collided with the Mont-Carmel telecommunications tower. The facilities of Télé-Québec, which was renting space on the tower, were destroyed. The costs incurred due to the accident are covered by an insurance policy.

6. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

Short-term Gouvernement du Québec subsidies receivable correspond to accrued interest, and repayment of the capital payable on the long-term debt in the next fiscal year and the balance receivable on subsidies linked to specific projects.

The long-term portion represents the balance of Gouvernement du Québec commitments related to fixed assets and their maintenance, minus capital repayments already made on long-term debt, and those to be made in the coming fiscal year.

7. LONG-TERM INVESTMENTS

	<u>2004</u>	<u>2003</u>
Investment in a satellite corporation	\$2 620 044	\$2 595 085
Portfolio investment	<u>9 842</u>	<u>9 842</u>
	<u>\$2 629 886</u>	<u>\$2 604 927</u>

Investment in a satellite corporation

Télé-Québec holds 25% of shares in a corporation whose main activity is to maintain a French-language television service on arts and culture.

Portfolio investment

Télé-Québec holds 4.44% of shares in a corporation whose main activity is signal management.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

8. FIXED ASSETS

	2004			2003
	Cost	Accumulated depreciation	Net	Net
Antenna array, including improvements	\$27 057 796	\$24 343 774	\$2 714 022	\$2 849 206
Technical equipment	23 969 877	16 608 664	7 361 213	8 221 313
Furniture and fixtures	1 488 640	971 410	517 230	549 842
Data processing equipment	6 758 122	5 307 917	1 450 205	1 931 201
Automotive equipment	727 566	502 718	224 848	281 763
Leasehold improvements	1 369 552	920 243	449 309	437 262
	<u>61 371 553</u>	<u>48 654 726</u>	<u>12 716 827</u>	<u>14 270 587</u>
Grouping of installations:				
Technical equipment	4 620 644	3 047 659	1 572 985	1 881 775
Furniture and fixtures	653 332	435 792	217 540	261 215
Leasehold improvements	4 272 508	2 849 898	1 422 610	1 708 225
	<u>9 546 484</u>	<u>6 333 349</u>	<u>3 213 135</u>	<u>3 851 215</u>
	<u>\$70 918 037</u>	<u>\$54 988 075</u>	<u>\$15 929 962</u>	<u>\$18 121 802</u>

9. SHORT-TERM BORROWINGS

	2004	2003
Loans from financial institutions (rate as at March 31: 4.00%)	\$13 650 000	\$14 139 000
Loans from financial institutions (rate as at March 31: 2.50%)	<u>390 214</u>	<u>4 332 252</u>
	<u>\$14 040 214</u>	<u>\$18 471 252</u>

Loans from financial institutions

Télé-Québec has credit with a financial institution that is renewed annually on September 30. At March 31, 2004, the maximum amount Télé-Québec could borrow was \$16 000 000. The sums borrowed bear interest at the prime rate when the credit margin is used and bear interest at the average rate of one-month bank acceptances, plus a 0.3% margin that replaces the issuing and management costs in the case of a bank acceptance.

Borrowings from the Financing Fund

Under its assets maintenance program, Télé-Québec has an authorized credit, which is renewable annually, with the Financing Fund for certain work and equipment purchases. At March 31, 2004, the maximum amount Télé-Québec could use was \$6 000 000. Amounts used bear interest at the average one-month bank acceptances rate plus 0.3% in lieu of issuing and management fees.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2004	2003
Suppliers and accrued expenses	\$4 228 982	\$6 071 623
Various accounts payable	2 253 207	1 023 560
Salaries and fringe benefits payable	4 206 481	4 085 221
	<u>\$10 688 670</u>	<u>\$11 180 404</u>

11. LONG-TERM DEBT

	2004	2003
Bond, series "1", 11.25%, maturing May 25, 2008	\$5 000 000	\$5 000 000
Borrowings on note from the Financing Fund of the Gouvernement du Québec:		
6.22% repayable in annual instalments of \$554 749 until June 1, 2004 and an instalment of \$3 226 374 on June 1, 2005	3 881 353	4 435 833
6.22% repayable in annual instalments of \$469 106 until June 1, 2005	938 211	1 407 317
4.798% repayable in annual instalments of \$503 525 until February 27, 2014	5 035 247	
5.795%, repayable in annual instalments of \$254 415 until December 1, 2010	<u>1 780 905</u>	<u>2 035 320</u>
	16 635 716	12 878 470
Instalments due within one year	<u>1 781 524</u>	<u>1 278 000</u>
	<u>\$14 854 192</u>	<u>\$11 600 470</u>

Principal payments on the long-term debt over the next five fiscal years are as follows:

2005	\$1 781 524
2006	4 553 920
2007	757 940
2008	757 940
2009	5 757 940

12. GOUVERNEMENT DU QUÉBEC ADVANCE

A \$2 750 000 advance was granted Télé-Québec for its investment in a satellite corporation. Where applicable, the advance will be repaid the date the satellite corporation dissolves or the date Télé-Québec recovers the capital invested or December 31, 2011 at the very latest. Interest costs correspond to net profits earned on the investment of the \$2 750 000 to an annual maximum equal to the prime rate. Interest accrues since the advance's disbursement and are payable as of the year the satellite corporation begins distributing profits annually, up to the amount distributed. Under the shareholder agreement, no profit distribution is authorized prior to August 31, 2007.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

13. DEFERRED REVENUE

	2004	2003
Gouvernement du Québec subsidies		
Subventions related to fixed assets for repayment of the long-term debt		
Opening balance	\$4 770 334	\$1 617 307
Deferred revenue for the fiscal year	552 104	4 447 897
Transfer to revenue for the fiscal year	(1 126 997)	(1 294 870)
Closing balance	4 195 441	4 770 334
Production and distribution of educational Material	4 578	5 845
Specific projects	1 240 000	
	5 440 019	4 776 179
Other revenue from outside productions	251 001	295 434
Rent collected in advance	55 338	49 476
	5 746 358	5 121 089
Less: Current portion		
Gouvernement du Québec subsidies	1 871 579	1 051 331
Other revenue from outside productions	251 001	295 434
Rent collected in advance	55 338	49 476
	2 177 918	1 396 241
	<u>\$3 568 440</u>	<u>\$3 724 848</u>

14. CASH FLOWS

	2004	2003
Change in non-cash elements related to operations		
Variation in accounts receivable	\$316 509	\$(489 148)
Variation in accounts receivable from the Gouvernement du Québec	(2 054 893)	463 059
Variation in broadcasts completed and being produced	(461 089)	6 510
Increase in TV broadcasting and distribution rights and participation in outside productions	1 792 212	(1 075 998)
Variation in technical and production supplies	33 124	18 116
Variation in prepaid expenses	13 047	(70 717)
Variation in accounts payable and accrued liabilities	(491 734)	2 967 510
Variation in TV broadcasting and distribution rights and participation in outside productions payable	(3 358 986)	1 100 348
Variation in deferred income	2 177 918	1 396 241
	<u>\$(2 033 892)</u>	<u>\$4 315 921</u>

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

14. CASH FLOWS (cont'd)

The shortfall of cash and cash equivalents shown in the cash flow statement includes the following amounts recorded in the balance sheet:

	<u>2004</u>	<u>2003</u>
Cheques outstanding minus cash	\$1 446 628	\$473 874
Borrowings from financial institutions	<u>13 650 000</u>	<u>14 139 000</u>
	<u>\$15 096 628</u>	<u>\$14 612 874</u>

The interest paid during the fiscal year totalled \$1 252 321 (2003: \$1 320 667).

15. COMMITMENTS

Télé-Québec is committed to long-term leases, expiring at various dates up to 2019, for office space and other goods and services. Some of these leases include a renewal option varying from 1 to 15 years.

Lease payments for the year ended March 31, 2004, amount to \$6 683 698 (2003: \$6 583 042).

Minimum future payments are as follows:

2005	\$5 094 870
2006	4 205 298
2007	3 539 998
2008	3 112 200
2009	3 081 262
2010 and thereafter	<u>29 905 418</u>
	<u>\$48 939 046</u>

16. PENSION PLANS

The staff members of Télé-Québec participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

Télé-Québec's contributions charged to the year-end statement amount to \$857 277 (2003: \$874 951). Télé-Québec's liability towards these Government plans is restricted to its contributions as an employer.

17. FINANCIAL INSTRUMENTS**Long-term debt**

At March 31, 2004, the fair value of the long-term debt of \$16 635 716 (2003: \$12 878 470) was \$18 788 110 (2003: \$14 948 701) given the capitalization of the cash flows at the market rate for securities with similar maturity dates and interest rates.

The fair value of short-term borrowings corresponds to the book value of these securities given that they are renewed in the near future.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

17. FINANCIAL INSTRUMENTS (cont'd)**Other assets and liabilities**

The fair value of cash, accounts receivable, accounts payable and accrued expenses is equal to their book value given that they mature in the near future.

Long-term investments

The fair value of long-term investments cannot be estimated given the lack of a market for this type of investment.

Gouvernement du Québec subsidies receivable

At March 31, 2004, the fair value of Gouvernement du Québec subsidies receivable of \$15 912 141 (2003: \$14 327 902) was \$17 890 309 (2003: \$16 254 313).

Gouvernement du Québec advance

The fair value of the Gouvernement du Québec advance cannot be estimated given the lack of a market for this type of advance.

18. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, Télé-Québec is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. Télé-Québec did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

19. SERVICE EXCHANGES

Télé-Québec exchanged services over the fiscal year for approximately \$588 196 (2003: \$959 000). This amount is based on the fair value of the goods and services transferred. In cases where only the value received can be established more clearly, it was used to evaluate the exchange. These transactions do not significantly affect the net results of Télé-Québec's operations.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**MANAGEMENT'S REPORT**

The financial statements of Télé-Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

Télé-Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited Télé-Québec's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Paule Beaugrand-Champagne
President and Chief Executive Officer

Michèle Parent
General Manager, Administration and Finance

Montréal, June 4, 2004

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of Télé-Québec as at March 31, 2004 and the statements of revenue and expenditure, surplus and cash flows for the year then ended. These financial statements are the responsibility of Télé-Québec management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, Télé-Québec's financial position as at March 31, 2004 and the results of its cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, June 4, 2004

TRIBUNAL ADMINISTRATIF DU QUÉBEC
(R.S.Q., c. J-3)

REVENUE AND EXPENDITURE
for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u> (Note 3)
REVENUE		
Contribution from the Ministère de la Justice	\$9 993 200	\$9 085 900
Contributions from other government agencies (Note 4)	17 956 800	17 478 900
Rate-setting	105 340	142 574
Interest on bank deposits and short-term investments	133 737	121 814
Other	<u>26 682</u>	<u>34 290</u>
	<u>28 215 759</u>	<u>26 863 478</u>
EXPENDITURE		
Salaries and fringe benefits	20 136 061	19 665 669
Rent	3 873 670	3 855 081
Transportation and communications	1 122 844	1 249 111
Professional and administrative services	1 493 328	1 606 264
Maintenance and repairs	265 212	177 635
Materials and supplies	240 134	336 226
Depreciation of fixed assets	571 055	595 155
Amortization of systems development costs	318 567	255 461
Other	<u>25 942</u>	<u>1 990</u>
	<u>28 046 813</u>	<u>27 742 592</u>
EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE	<u><u>\$168 946</u></u>	<u><u>\$(879 114)</u></u>

TRIBUNAL ADMINISTRATIF DU QUÉBEC**DEFICIT**

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPENING BALANCE		
Previously established balance	\$4 607	\$236 732
Adjustment		
Entry of provision for transition allocations (Note 3)	<u>(5 477 047)</u>	<u>(4 830 058)</u>
Adjusted balance	(5 472 440)	(4 593 326)
Excess (deficiency) revenue over expenditure	<u>168 946</u>	<u>(879 114)</u>
CLOSING BALANCE	<u><u>\$(5 303 494)</u></u>	<u><u>\$(5 472 440)</u></u>
BALANCE COMPOSED OF:		
Deficit attributable to the provision for transition allocations	\$(5 896 786)	\$(5 477 047)
Surplus from other operations	<u>593 292</u>	<u>4 607</u>
	<u><u>\$(5 303 494)</u></u>	<u><u>\$(5 472 440)</u></u>

TRIBUNAL ADMINISTRATIF DU QUÉBEC

BALANCE SHEET
as at March 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash on hand	\$3 831 470	\$3 669 944
Accounts receivable and accrued interest	36 484	38 170
Prepaid expenses	<u>30 945</u>	<u>45 770</u>
	3 898 899	3 753 884
Fixed assets (Note 5)	966 039	1 158 818
Systems development costs (Note 6)	<u>998 040</u>	<u>962 343</u>
	<u><u>\$5 862 978</u></u>	<u><u>\$5 875 045</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$2 539 313	\$3 098 613
Provision for transition allocations (Note 7)	5 896 786	5 477 047
Provision for sick leave (Note 7)	<u>2 730 373</u>	<u>2 771 825</u>
	11 166 472	11 347 485
DEFICIT	<u>(5 303 494)</u>	<u>(5 472 440)</u>
	<u><u>\$5 862 978</u></u>	<u><u>\$5 875 045</u></u>

On behalf of the Tribunal,
Jacques Forgues
Roger Hakim

TRIBUNAL ADMINISTRATIF DU QUÉBEC

CASH FLOWS

for the year ended March 31, 2004

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Excess (deficiency) revenue over expenditure	\$168 946	\$(879 114)
Elements not affecting cash:		
Amortization of fixed assets	571 055	595 155
Amortization of system development expenses	<u>318 567</u>	<u>255 461</u>
	 1 058 568	 (28 498)
Change in non-cash elements linked to operations:		
Accounts receivable and interest accrued	1 686	(27 125)
Amount receivable from the Consolidated Revenue Fund		385 825
Prepaid expenses	14 825	(20 667)
Accounts payable and liabilities	(671 203)	(696 996)
Provision pour allocations de transition	419 739	646 989
Provision for sick leave	<u>(41 452)</u>	<u>185 946</u>
	 (276 405)	 473 972
Cash flows from operating activities	<u>782 163</u>	<u>445 474</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(266 373)	(450 314)
Systems development expenses	<u>(354 264)</u>	<u>(276 287)</u>
Cash flows used for investment activities	<u>(620 637)</u>	<u>(726 601)</u>
INCREASE (DECREASE) IN CASH ON HAND	161 526	(281 127)
CASH ON HAND, BEGINNING OF YEAR	<u>3 669 944</u>	<u>3 951 071</u>
CASH ON HAND, END OF YEAR	<u>\$3 831 470</u>	<u>\$3 669 944</u>
 INTEREST PAID	 <u>\$5 883</u>	 <u>\$105</u>

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2004

1. CONSTITUTION AND PURPOSE

The Tribunal administratif du Québec is a Government agency established under the Act respecting administrative justice (R.S.Q., C. J-3), and is mandated, in those cases provided for in the Act, to rule on recourses against an administrative authority or a decentralized authority. Under the Income Tax Act (Canada) and the Taxation Act (Québec), the Tribunal administratif du Québec is not subject to income tax.

2. ACCOUNTING POLICIES

The financial statements of the Tribunal were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

Fixed assets

Fixed assets are recorded at cost and depreciated over their service life on a straight-line basis at the following rates:

Office furniture and equipment	20%
Office automation and computer equipment	33.3%
Software	33.3%
Leasehold improvements	10%

Systems development expenses

Systems development expenses represent the cost of developing the file processing system and the ruling drafting system. These expenses will be posted to operations over a five-year period using the straight-line method of discount accounting once these systems are operational.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Tribunal lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. CHANGE IN ACCOUNTING POLICY

The financial statements for the fiscal year ended March 31, 2003 have been adjusted to record a provision for transition allocations payable to members whose mandate is not renewed or who do not seek renewal of their mandate. This allocation accumulates with years of service rendered.

Before adopting new provisions, the allocation was posted to expenditures for the fiscal year during which it was paid. The retroactive application of this change increased (decreased) the following items of the financial statements:

	<u>2003</u>
Salaries and fringe benefits	\$646 989
Deficit	5 477 047
Provision pour allocation de transition	5 477 047

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004

4. CONTRIBUTIONS FROM OTHER GOVERNMENT AGENCIES

	2004	2003
Ministère de l'Emploi, de la Solidarité sociale et de la Famille	\$8 716 400	\$8 660 400
Société de l'assurance automobile du Québec	6 989 800	6 683 500
Régie des rentes du Québec	2 191 300	2 048 800
Commission de la santé et de la sécurité du travail	59 300	86 200
	<u>\$17 956 800</u>	<u>\$17 478 900</u>

5. FIXED ASSETS

	2004		2003
	Cost	Accumulated depreciation	Net
Office furniture and equipment	\$548 484	\$391 383	\$157 101
Office automation and computer equipment	2 123 757	1 817 276	306 481
Software	734 530	490 288	244 242
Leasehold improvements	328 384	70 169	258 215
	<u>\$3 735 155</u>	<u>\$2 769 116</u>	<u>\$966 039</u>
			<u>\$1 158 818</u>

6. SYSTEMS DEVELOPMENT COSTS

	2004		2003
	Cost	Accumulated depreciation	Net
Systems development costs	\$2 069 464	\$1 071 424	\$998 040
			<u>\$962 343</u>

7. FUTURE FRINGE BENEFITS**Pension plans**

The staff and the members of the Tribunal participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension of Plan of Management Personnel (PPMP). These are defined-benefit plans and include guaranteed payments on retirement and death.

The Tribunal's contributions charged to the year-end statement amount to \$575 355 (2003: \$571 619). The Tribunal's liability towards these Government plans is restricted to its contributions as an employer

Some of the Tribunal's staff members participate in none of the Government pension plans. Instead, they receive a sum equivalent to the employer's contribution for the duration of their contract. The amounts paid in this regard and posted to the results for the fiscal year total \$24 647 (2003: \$33 691).

TRIBUNAL ADMINISTRATIF DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2004
7. FUTURE FRINGE BENEFITS (cont'd)
Provision for transition allocations

In keeping with new provisions related to recording severance pay and termination benefits, the Tribunal posted a provision for transition allocations.

The transition allocations are payable the most full-time members whose mandate is not renewed or who do not seek renewal of their mandate. According to the regulation on remuneration and Tribunal employees' other working conditions, this allocation corresponds to one month's wages at the time of departure per year of continuous service up to a maximum of twelve months.

	2004	2003
Opening balance	\$5 477 047	\$4 830 058
Charge for the year	419 739	646 989
Amount used during year		
Closing balance	<u>\$5 896 786</u>	<u>\$5 477 047</u>

Provision for sick leave

	2004	2003
Opening balance	\$2 771 825	\$2 585 879
Charge for the year	335 155	410 923
Benefits paid during the year	<u>(376 607)</u>	<u>(224 977)</u>
Closing balance	<u>\$2 730 373</u>	<u>\$2 771 825</u>

8. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Tribunal is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Tribunal did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

9. FINANCIAL INSTRUMENTS

The fair value of the short-term financial instruments equals their book value given that they mature in the near future.

TRIBUNAL ADMINISTRATIF DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Tribunal administratif du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing accounting policies that comply with the accounting principles that are generally accepted in Canada.

In 2003-2004, the Tribunal recorded future benefits of \$5.9 M representing severance pay payable to most full-time members in order to comply with the new interpretive instructions of the Emerging Issues Committee of the Canadian Institute of Chartered Accountants published in decision summary EIC-134 of March 17, 2003 and effective retroactively. This new accounting treatment leads the Tribunal to post a deficit of \$5.3 M linked essentially to this adjustment. The Tribunal intends to adopt measures to absorb the deficit in the coming fiscal year.

All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Tribunal administratif du Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Tribunal's financial statements, in accordance with generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

Jacques Forgues
Acting President

Roger Hakim, CGA
Director, Administration and
Tribunal Fund

Québec, May 28, 2004

TRIBUNAL ADMINISTRATIF DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Tribunal administratif du Québec as at March 31, 2004 and the statements of revenue and expenditure and deficit and cash flow for the year then ended. These financial statements are the responsibility of Tribunal management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Tribunal's financial position as at March 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Doris Paradis, FCA
Acting Auditor General of Québec

Québec, May 28, 2004